MARKETING OF FINANCIAL SERVICES

CHAPTER – III

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3.1 INTRODUCTION

Marketing of financial services begins with the mightily problem in that the service designer to promote more or less a uniformed product, which unlike most packaged goods have intrinsic differences. For instance a certain group of people will insist that no other noodles taste like Maggie. But money is money, no matter whether it came from Canara Bank, Unit Trust of India or Life Insurance Corporation.

3.2 FINANCIAL SERVICES IN THE INDIAN CONTEXT

The main explanation put forward to explain Indian financial market today is what has now got termed as " the great consumer boom". In the seventies, the Indian economy was characterized by industrial recession. The middle class thrust then was on accumulating substantial savings. Whatever conspicuous demand existed (for items such as Tvs, tape recorders, kitchen gadgets, cosmetics etc.) was partly met by the inadequate domestic production and balance by way of imported goods brought into the country through appropriate and inappropriate channels.

By mid-80s the country saw a bargaining middle-class population, estimated anywhere between 100-200 million, who wanted an outlet for their savings. The catalyst, of course, was the process of economic liberalization.

The chart below illustrates the metamorphosis.

Around 60's	Today
"Debt" adirty word	"Debt"-A comfortable proposition
Limited number of financial products	Innumerable financial products
Vehicale for mass promotion non-existent	Today the TV reaches 42% of India's population.

Regardless of limited funds on hand the Indian consumer today does not mind borrowing. Today, broadly he borrows for

a) House Purchase
b) Vehicle Purchase
c) Consumer Durable Purchase
d) Purchase against Credit cards.

What the attitudes of this new generation show is the movement into the cult of the individual. We are in the environment of personal expression. Successful brands being the ones, which sell themselves by, allowing consumer to feel it is their choice-e.g. Citibank Diners Club Credit Card," the Reward for Success" campaign.

In a research done by a company in U.K. on consumer attitudes towards financial products, it was discovered that 5 distinct purchasing desires could be identified against the two dimensions, viz. 'the importance of money' and 'confidence'.

Financial Attitude Group	Attitude displayed
Connoisseur	Have interest & confidence in the financial product; are objective & go straight to the company offering the product.
Pragmatists	View financial products attaching significant importance but not so important in & of itself.Are confident about their judgement of financial products. Simple Sales proposition would do for them.
Carefree Optimists	For them, money is a means of and for glamour. No desire to seek out financial products available to them. tendency to spend all their money leaving no scope for investments
Traditionalists	They comprise the bulk of the community for whom the obvious choices are bank accounts, public provident fund, National Saving etc.
Anxious	Money may be important but its significance is indicated by the absence of it.

3.3 SPECIAL CHARACTERISTICS OF FINANCIAL SERVICES

Services tend to share four important characteristics which distinguish them from physical products and impact on marketing programs, namely:

Intangibility

Inseparability

Heterogeneity/variability

Perishability

Financial services share these characteristics to a degree but also exhibit certain differences. Some of these similarities and differences are as under

a) Intangibility

Financial services and generally intangible, but the service providers go to considerable lengths to ' tangibilise' the service for customers. A bank passbook, regular bank statement 'gold' credit cards and insurance policies are all examples of the way in which financial services are presented to consumers. They can enhance the image of the service product, brand name and value serve to reassure the consumer and help the organization's positioning.

b) Inseparability

The degree of inseparability depends on the type of service and the actual supplier. Whilst the service will frequently be inseparable from the service provider, such as the quality of service received by a customer visiting their bank to pay some bills, the situation is frequently less clear. Many everyday transactions are carried out now via automated services- the automated teller machines (ATMs) which are now so familiar. Because access to these systems has broadened to allow use of any particular machine by customers of other institutions, the customer will often not be dealing directly with their own provider.

Additionally, many financial services are sold by brokers and agents of various kinds and this has led to difficulties and dissatisfaction when consumers have been sold unsuitable products or been wrongly advised. Pensions providers, for example, have been left to resolve the problems caused by thousands of people being encouraged to leave company schemes and buy personal pension plans by commission-hungry agents with no formal standing in the company. Other services are frequently handled by agents overseas such as credit card agencies and other currency/traveler's cheque encashment. The good name of the actual service provider, for example the credit or charge card company, will be wholly contingent upon the efficiency and reliability of the services.

c) Heterogeneity/variability

In this case, the complexity of the service transaction process will determine the extent of variability and this can differ to a large extent between institutions and even within one institution. The greater the degree of automation within any transaction process, the greater the degree of standardization. Thus, simple transactions may be carried out via ATM and completely standardized or via a branch counter where they might be fairly standardized but subject to some variation in quality.

Total standardization is not necessarily desirable from the consumer's point of view. A friendly greeting or being addressed by name can enhance service delivery and while an ATM cannot arrange an emergency overdraft facility when funds are low, branch staff can look at the standing of individual customers and make arrangements where appropriate, satisfying the customer and profiting from charges applied to the account. Some customers may want transactions to be handled as speedily and efficiently as possible while others may prefer a caring approach and a friendly chat. Customer care is a key for organizations whether engaging with customers in a simple 'free' transaction such as paying a bill or a long-term commitment such as a mortgage or pension. Tailoring the approach to the needs of the individual customer as far as possible may be the best policy.

d) Perishability

Again, the degree of perishability depends on the type of service. If a cheque needs to be cleared by a certain date and the system causes a delay then the benefits to the consumer are lost so the service could be said to be perishable. By and large, however, money and financial services are enduring in nature. If a bank's reserves are not fully utilized profitably through lending or investment they will still retain their worth and may be utilized again at a later date. A bank branch which does not have any customers at all on a particular day may actually gain rather than lose profit as staff may be able to use the peace and quiet to catch up on other work.

Similarly, customers perceive many financial products to be enduring or long-term commitments. An insurance policy becomes perishable the minute it expires, but for the whole of its active duration it represents an ongoing service. Production and consumption is frequently not simultaneous with financial services. Whilst a customer ordering a meal in a restaurant does so on the understanding that their needs will be satisfied the same evening, a customer signing for a savings plan may expect benefits in five or ten years, or even longer. There may be no immediate benefit- on the contrary having to make regular payments may easily be seen as a disadvantage or a cause of worry. Even financial services which offer a benefit such as a loan or mortgage which enables the customer to purchase something which they otherwise could not afford are not usually produced and consumed simultaneously, although very fast or 'instant' decisions on loan facilities within certain limits are increasingly offered as a benefit by finance companies.

A key task in financial services marketing is to create awareness of long-term benefits and helping customers to recognize the need for financial services such as pensions which they may not see themselves needing for many years, or needs which they may not want even to consider at all such as life insurance. Financial service providers also need to reduce cognitive dissonance in consumers who might back out of a commitment due to second thoughts. Regulations decree nowadays that most financial services are sold on the basis that customers have a short ' cooling off' period, in case the customer changes their mind or to offer them protection if heavy-handed sales pressure has been used. Everything which can be done to tangibilise the services by offering clear and attractive documentation, for example, and offering reassurance and confidence to the consumer should be looked at by the service provider.

e) Other characteristics

There are other characteristics which apply to many types of financial services and which must be taken into consideration by marketers. These vary between type of service and type of service provider but the following examples illustrate key ideas;

High involvement purchases/complex products Many financial services are high involvement purchases. This will mean that the customer will shop around for the best advice or the best offer and will generally take a long time to plan the purchase, for example with a mortgage or a pension. Information will be sought about competing brands and products, usually from a variety of sources including advertising, the press, informal advice from colleagues or family, perhaps, and formal advice from the bank manager or a financial consultant.

The process can be linked to buying a car or any other major purchase, except that the customer often perceives greater risk as financial services are frequently highly complex and it is difficult for the layperson to assess their value/potential. Someone buying a car is usually happy to rely on the supplier's guarantee that any faults will be put right but a customer looking for a good investment has no such guarantee-often a warning instead that investment products may go down as well as up in value.

High levels of brand loyalty Customers tend to stay with financial service providers and use them to satisfy their different needs at different stages of their life. Banks recognize this well and are keen to provide student overdrafts in the hope of retaining a professional salaried account holder for many years. Many people choose the same bank as their parents because the parents open an account for them. Children and teenagers are a key target market for banks because of the possibilities of future business. Insurance companies emphasis in their advertising that they offer services of meet a whole lifetime of needs from a first-time mortgage, life insurance and household insurance for family protection, savings and pensions for old age and even funeral costs cover. Customer retention is the aim for financial service providers. Customers will, and increasingly, change providers if they are very dissatisfied, however, or if they perceive better value elsewhere, thus increasing the competitive pressure between institutions.

Financial services also tend to be join purchases, very often, with decisions made by more than one person. The nature of many products mean that repeat purchase is very low or infrequent so the service provider needs to maintain contact with the customer over time whenever possible through annual statements, sales follow-ups and so on. Service providers need to keen abreast of significant changes in their customers circumstances as far as possible so that they can offer new services as required and safeguard both their own and the customer's interests in case of financial difficulty.

Many areas identified above are not unique to financial services but must be taken into consideration when planning effective marketing programmes. Other similar characteristics include the following :

- The importance of advertising in creating strong brand image and positioning .
- Distinct market segments and the use of target marketing, especially in growing markets (for example career women, the over 55's).

- Increasing price sensitivity and heavy price competition (for example car and home insurance, bank and credit card charges).
- Growth in the importance of customer care in service differentiation.

3.4 THE MARKETING AND COMPETITIVE ENVIRONMENT

Environmental analysis and monitoring is of critical importance in any industry especially in the dynamic financial services industry with its proliferation of products and services and changing industry structure. External environmental analysis usually involves assessing influences on the organization's business activity under the following main headings:

Political/legal
Economic
Socio-cultural
Technological

Some key influences in each of these categories and the competitive environment will be reviewed here:

Political/legal Some major political and legal developments have been reviewed in the preceding section which have highlighted the radical changes which have been brought about by these influences. Other influences which can have an impact on financial services and consumer confidence include the following:

- Government attitude towards home ownership
- State provision of pensions

- Government encouragement of savings and investment (via tax benefits, for example)
- Regulatory control and protection (to prevent the collapse of financial institutions and protect investors' money).

Economic Economic factors are key variables which will impact on activity in the financial services sectors. The level of consumer activity is governed almost entirely by income levels and personal wealth. As income levels grow, more discretionary income is available to spend on financial services. Consumer confidence in the economy and in job security also has a major impact; if lean of expenditure. Consumers may also seek easy access saving and be unwilling to tie up their money for longer periods with potentially more attractive investments.

The main economic factors, which should be monitored with regard to financial services marketing, are as follows:

- Personal and household disposable income
- Discretionary income levels
- Employment levels
- The rate of inflation
- Income tax levels and taxation structures
- savings and investment levels and trends
- Stock market performance
- Consumer spending
- Consumer credit

Socio-cultural Many demographic factors have an important bearing on financial services markets. Certain factors have been particularly noticeable in recent year such as the growth of inherited wealth through property ownership and changing attitudes towards consumer credit and debt. Key influences include:

- Changing employment patterns
- Numbers of working women
- The aging population
- Number of first-time house buyers
- Changes in the number of households
- Marriage/divorce/birth rates
- Consumption trends

Technological Technology has had a major impact in many industries including financial services and banking in particular. ATM services which not only provide cash but allow for bill payments, deposits and instant statements are widely used. EFTPOS (electronic funds transfer at point of sale), where cards such as Standard and Chartered, American Express, are debited automatically when payment is made for goods and services without the need for cheques, is a clear example. From the customer's viewpoint, technology has played a major role in the development not of the financial product itself but of the process whereby the service is delivered. Automated queuing systems have made visits to the bank easier and more convenient. Telephone banking and insurance services such as First Direct and Direct

Line are examples of telecommunications technology being used to innovate in place of a traditional branch-based service process.

Technology has also played a major role within organizations, bringing about far greater efficiency through computerized records and transaction systems and also in business development, through the setting up of detailed customer databases for effective segmentation and targeting.

The main technological developments fall within these categories, therefore:

- Process developments
- Information storage and handling
- Database systems

Product technology is of relatively minor importance within the financial services marketplace as product innovations are usually in the form of a change in the terms of services offered or slightly different services at lower charges or higher rates of interest. It is easy for competitors to follow suit or make other changes and, once the decision has been made promotion and advertising the new or revised service will help to make it successful rather than any king of technological refinements. Some physical developments relating to technology in the production of credit cards have taken place such as the imprinting of a hologram on cards to help prevent forgery.

The competitive environment The financial services industry has undergone major changes, as discussed earlier. During the 1980s the industry expanded considerably and the number of financial products available proliferated. The trend since the early 1990s, however, is towards more streamlined business structures through rationalization to produce greater efficiency and higher profitability in a market suffering from the setbacks of the recession.

3.5 THE FINANCIAL SERVICES MARKETING MIX

The challenges facing the financial services industry mean that greater emphasis than ever before must be placed on developing and implementing successful marketing programs to create and foster a customer orientation. True differentiation of financial products is virtually impossible to achieve because they are intrinsically the same, offering similar benefits and services to consumers. The degree of substitutability between brands is correspondingly very high at the outset (for example, at the supplier or product selection stage). Once a financial product has been sold, however, the customer is frequently tied in over a long period and may even face penalties if they wish to change supplier (as in the case of fixed rate mortgages) or if they wish to discontinue the service (terminating endowment or insurance agreements before the full term has expired for example).

The key objectives for financial services providers are:

- attracting customers in the first place
- retaining customers through high levels of client satisfaction and by providing a portfolio of financial services to meet their changing needs over time.

Some key issues, which must be taken into consideration in designing the most effective financial services marketing mix, are as follows:

a) Product

As mentioned previously, there is little or no room for innovation in product design due to the ease by which competitors can make similar offerings, for example by altering charges or interest rates to meet those of competitors. Additionally, many financial services are affected by other restrictions, such as government directives relating to income tax and investments or constraints on the amounts which can be invested . Differentiation, therefore, can best be achieved through the other elements of the marketing mix. Current accounts are dominated by banks, although the building societies' share of this market in which they could not compete until recently is growing . They hold the majority of mortgage accounts, however, but this stronghold is increasingly under pressure from banks.

b) Price

The price in financial services terms relates to the cost involved to the customer in, say bank charges or credit card interest rates. These prices seem to evoke low levels of customer sensitivity as many customers enjoy 'free' banking, by maintaining their current accounts in credit, for example, or paying their credit card balances off each month. The introduction of new charges, however, such as the annual credit card fee had a noticeable effect initially, however, and sparked off competitive reaction from lenders prepared to offer cards with no annual charge.

Price also relates to the value of the product to the customer and, as such, can be highly sensitive. This can be in terms of interest rates charged on a mortgage, where reductions in interest for first time buyers or preferential rates for existing customers of other services (for example current account holders) are standard promotional tools in the industry, representing a form of discounting .the rates of return offered to investors is another element of the price and different products within the range are frequently priced at differential rates, to attract long-term savers or large lump sum investors, for example. Pricing can therefore be used to differentiate the offering and is likely to be used by customers in selecting in selecting a service.

c) Promotion

Major advertising campaigns are undertaken continuously by banks and other major financial institutions such as insurance companies. The main purpose of the advertising is to strengthen awareness of the brand and company image and to inform the market about the services available . The trend has also been towards developing more below -the -line promotional activities using highly sophisticated database to target direct mail campaigns at distinct market segments and using publicity, sponsorship and other promotional means. Successful advertising has been used personal selling over the telephone once the initial inquiry has been made and staff skills and customer care have been developed to enable a strong personál selling strategy to work.

Another area where personal selling is a strong tool is in the area of insurance products and the emergence of 'bancassurance'- the product offered through links between banks and insurers, commonly with banks as the controlling partner. The insurance organization's expertise in personal selling and the strong customer loyalty and extensive customer base of the banks make for synergy in business development. The importance of personal selling is now widely recognized and many institutions offer home visits by financial advisers.

d) Place

Place or location has always been regarded as critical in retail financial services where high street positions are maintained by most of the large institutions. For transaction services where regular and frequent branch contact is required this can be important. First Direct, however, the telephone banking service, has proved that a bank without branches is possible though its customers still need access to convenient ATM outlets. Some consumers prefer personal, face -to-face contact within a branch and may be more likely to use a local branch or building society.Direct Line and other telephone insurance services are also moving away from the traditional large networks of branches and brokers or agents. Changes in distribution sysytems, technology and consumer demands are all key influences on the evolution of the 'place' component of the marketing mix.

e) **People**

Customer care is at the forefront of both quality and differentiation in the financial services industry. Staff need to be highly trained not only in customer care but in how to respond to the rapidly changing market environment . Personnel can be used to develop competitive advantage in the market place and to build and maintain relationships with customers.

f) **Process**

This is the main area where technological advances have led to major change. Improvements in the process stem not only from the automation of many transactions and data handling within organizations but also from process re-engineering to reduce delays in processing mortgage applications, for example, or the installation of automated queuing systems to cut down on waiting time. Country wide finance, a finance company specializing in consumer lending, offer existing and previous customers same-day acceptance of loan applications and will also arrange for courier delivery of a personal cheque for the loan amount to the customer's home if required.

g) **Physical evidence**

The environment in banks is changing, moving away from austerity and formality to a more friendly approach reflected in more attractive branch layouts and decor. Other physical evidence plays an important part in financial transactions such as the documentation which must be presented by salespeople to prove that they are authorized to offer investment advice. This creates confidence and helps to build the relationship between customer and provider. Physical evidence is also widely used to tangibilise the service. attractive brochures and policy documents, presented in glossy folders, cheque book and credit card holders, 'gold' credit cards, children's collectable' money boxes are all examples of physical evidence being used in this way.

3.6 FINANCIAL PRODUCTS (SERVICES) - THE OPTIONS AVAILABLE

In order to appreciate better the range of financial products available to us in the country we shall briefly discuss about their " providers" and that how financial services have come to blossom.

Since bank nationalization in July 1969,banking and finance industry constituents have been broadly identified into 7 categories.

- State Bank of India and its associate banks such as State Bank of Patiala, State Bank of Hyderabad etc.
- Nationalized banks (i.e. Government of India undertaking) such as Syndicate bank, Bank of India, Canara Bank, Punjab & Sind Bank etc.
- Private sector banks such as Bank of Madura, Vysya Bank, Federal Bank etc.
- Foreign banks such as American Express Bank, ANZ Grindlays Bank, Bank of America etc.

- Insurance companies such as Life Insurance Corporation of India, General Insurance Corporation etc.
- Unit Trust of India
- Non-banking finance companies such as First Leasing, Sundaram Finance etc.

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 product.

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 safeguard to some extent here is the very branding of the product.

Some Typical Financial Products (Fund Based Services)

1 **Savings & Recurring Account :** These are products available only with banks, providing relatively low yield but offer advantage of instant liquidity.

2 **Current Account :** Again, available only with banks but can be operated only by corporate entities. These is zero-yield from this product. It exists only to facilitate day-to-day company transactions and availing of credit facilities from the bank, if any. It also serves as a reference point to check on creditworthiness.

3 **Fixed Deposits :** This product is made available by banks, finance companies and certain companies. Currently, the status is that the banks offer the lowest yield on deposits. Companies pay more and the highest is offered by finance companies.

4 **Retail Loan Products:** This covers the grant of auto loan, housing loan, consumer durable loan etc. Here making the consumer finance scheme more attractive from the point of its affordability is what sells.

Today, possession of a well-known brand of car has a reason to satisfy the status and recognition needs of the human self thus heeling him to reach the fourth step of esteem needs in Maslow's hierarchy. This facility is available both from banks as well as finance companies, the effective rate of interest charged being comparably lower in the case of banks vis a vis finance companies.

5 **Commercial Loans:** This could broadly be split into long-term borrowings (beyond a period of one year) and short-term (less than a period of one year) borrowings.

Generally long terms loans are provided by financial institutions such as Industrial Finance corporation of India (IFCI), Industrial Development Bank of India. Short-term loans, also known as working capital are made available by all commercial banks.

Non-banking finance companies assist corporate entities by arranging bulk amounts as deposits from third party companies, at rates of interest higher than bank's lending rate and, for shorter periods, say,90days;180days & one year etc.

6 **Leasing & Hire Purchase:** This facility is made available, both to individuals and firms, by only finance companies. Both leasing and hire-purchase as a method of financing are essentially a provision of credit to the prospective user who does not have the immediate purchasing power to buy these goods but will have the capacity to make periodic payments for the use of such goods for specific period.

There is difference between the two terms. Leasing can be defined as a method of financing equipment/vehicles wherein the prospective 'user' known as "lessee" in consideration of making periodic payments is allowed the 'use' of equipment/vehicle during the period of lease while the legal ownership in the equipment/vehicle vests in the hand of the finance company, otherwise known as the lessor.

Under Hire-Purchase agreement, the finance company lets the goods on hire to the user for a specified period of time. However here the title of ownership lies with the user from day one.

7 **Credit Cards :** Several banks, both Indian and foreign, have moved into the credit card business. Also known as " plastic money", it offers the individual an opportunity to buy rail/air tickets, make purchases from shops, have meals & stay at hotels when they need it. And pay at leisure.

All the products discussed so far being fund based entitle banks & finance companies to earn by way of interest spreads and, optionally, nominal service charges.

8 **Venture Capital**: The term 'venture capital' comprises of two words viz. 'venture' and 'capital'. The dictionary meaning of 'venture' is a course of proceeding associated with risk, the out come of which is uncertain and 'capital' means resources to start the enterprise. In a narrower sense venture capital is understood as the capital which is available for financing new venture. Broadly, it can be interpreted as the investment of long-term equity finance where the venture capitalist earns his return from capital gain.

9 **Mutual Funds** :Mutual finds is the other area of financial services which has grown rapidly in India over the last ten years. Today they are playing significant role in mobilizing individual savings and providing stability to the Indian capital market. Mutual fund, a financial innovation, provides for a novel way of mobilizing savings from small investors and allowing them to participate in the equity and other securities of the industrial organizations with less risk.

Other Financial Products (Fee Based Services)

1 **Underwriting :** It is the act or process by an underwriting company, - banks, financial institutions, Merchant Banks. It devolves upon the

underwriters to dispose off the securities to the investing public at a price sufficiently attractive to ensure their sale and yet yield the underwriters a profit.

In addition to this, straight underwriting of a public offering, involving a firm commitment, there is this standby type of underwriting wherein the purchase group makes a firm commitment to take any balance of shares unsubscribe in a company offering subscription to investors.

2 **Broking:** It is an intermediary service of bringing together buyers and sellers of the same security or commodity, for a commission or brokerage. A broker is a specialist and accordingly well versed in the technique of his or her particular market, knowing the sources of supply and demand and being an expert on prices and price trends. The stock exchange broker is a member of the stock exchange and as such brand by the law of agency and the very rules of the stock exchange. If SEBI defines a sub-broker as a person not being a member of the stock exchange who acts on behalf of a stock broker as an agent or otherwise assisting the investors in dealing with stock broker. Stock brokers should posses the certificate granted by SEBI, to buy, sell, and deal in securities.

There are brokers who also underwrite issues. There broker – underwriters are akin to retailers. Investors get application forms and brochures etc. from these brokers.

3 **Custodial Services :** This is a modern facility offered by banks, trust companies to their customers. Custodianship accounts are also known as safe keeping, agency and financial secretary accounts.

A custodial service involves keeping the property intact; collecting income-interest, dividends, rents etc. and disbursing them in accordance with instructions: redeeming bonds called at or before maturity and disbursing proceeds according to instructions; receiving rights which may accrue on stocks, and transmitting instructions for purchase and sale of securities through a broker.

The range of custodial services offered in India include:

- Clearance and settlement processing
- Registration and transfer processing
- Assets administration
- Valuation reporting
- Collection of dividends
- Subscribing to rights etc. on behalf of clients.

4 **Credit rating:** Credit rating is symbolized rating mechanism which allots symbols which corresponds to the credit quality of the issuer of securities with reference to a particular instrument. It indicates the representative character of the particular security and it does not gave any recommendations to sell or hold that security.

The rating service extends from debt (Bond) security, commercial paper rating borrower/customer rating and sovereign/country rating.

There are predominantly three credit rating agencies operating in India viz, Credit Rating and Information Services of India Limited (CRISIL),Investment Information and Credit Rating Agency (ICRA) and Credit Analysis and Research Limited (CARE).

These companies are similar in providing the type of service. CRISIL mainly rates bonds, ICRA rates the debt instruments like long-term short-term and medium-term instruments, CARE rates the debt instruments such as debentures, fixed deposits, certificate of deposits, commercial paper and structured obligations.

The parameters taken as a base by these agencies are business risk, financial risk, credit quality, and management styles and practices.

A new form of rating system is coming into practice in the area of customer/borrower rating. This looks into the repayment abilities of the borrower. The agency formed for this venture is Onida Individual Credit Rating Agency of India Limited (ONICRA) in a technical collaboration with James Martain and Company, US, the parameters on which the rating is based are bank balances net-worth, earnings and repayment capacity of the borrower.

Moody's rating assess the country risk for international investments. The parameters taken into account for a country rating are economic and political stability, current account deficit, fiscal deficit to GDP, foreign exchange reserves balance of payments picture and the country's debt servicing capacity. The users of this service are institutional investors, collaborators, banks etc. with the boom in the credit business a lot of competitive activities and synergies are being planned by existing credit rating agencies of India.

5 **Merchant banking:** In the present day capital market scenario the merchant banks play as an encouraging and supporting force to the entrepreneurs, corporate sectors and the investors. The recent modifications of the India Capital market environment have emerged the various institutions have appeared in the financial spectacle and merchant bankers have joined to expand the range of financial services. Moreover, the activities of these Merchant bankers have developed considerably both horizontal and vertically, to cope with the changing environment so that these financial institutions can be constituted as a subsidiary of the parent bodies. Merchant Banks also called 'Investment Banks' is most significant institutions in the financial markets of the developed countries. They help in promoting and sustaining capital markets and money markets, and they provide a variety of financial services to the corporate sector.

6 **Loan syndication:** Loan syndication refers to the services rendered by the Financial service expert or firm in procurement of term loans

and working capital loans from financial institutions, banks and other financing and investment firms for his/its client.

7 **Share registration services:** In a company, the secretary or other official of the company will normally deal with the company share registration work. With the increase in public issues and number of investors, a specialized service called 'share registration services' has emerged as one of the important facets of financial services sector.

8 **Debenture Trusteeship:** When a company seeks to issue debentures or debenture stock, or even unsecured loan stock, it is customary to appoint a trustee to protect the interests of the debenture holders or stockholders. The issuer is normally constituted under a trust deed entered into between the company and the trustee. The powers and duties of the trustee will be set out in the deed.

9 **Insurance:** The Insurance Services eliminates the uncertain risk of loss for the individual through the combination of a large number of similarly exposed individuals who contribute to a common fund premium payments sufficient to make good the loss caused to any one individual.

Insurance cover divides the risk over a large number of persons. The divisions of adversity decreases in intensity and division of happiness makes more people happy. Insurance is a quality of money. Those who seek it endeavor to avert disaster from them by shifting possible losses on the shoulders of others that are willing for pecuniary consideration to take risk thereof. The primary function of general insurance is thus the elimination of uncertain risk of loss for the individual.

Insurance of Property:

Burglary Insurance

Cash Insurance

Engineering Insurance

Fire Insurance

Motor Insurance

Insurance of Liability:

Employee's Liability

Product Liability

Public Liability

Insurance of Persons:

Bhavishya Arogya

Group Mediclaim

Group Personal Accident

Overseas Mediclaim

Developing Financial Products:

1 **Factoring :** We can define factoring as the sale of book debts by a firm to a financial intermediary called the factor on the understanding that the factor will pay for the debts as and when they are collected or on a guaranteed payment date. Usually, the factor maker makes part

payment immediately after the debts are purchased thereby providing immediate liquidity to the client.

1. Client concludes a credit sale with the customer.
2. Client sells the customer's account to the factor and notifies the customer.
3. Factor makes part payment (advance) against the account purchased after adjusting for commission and interest on the advance.
4. Factor maintains the customer's account and follows up for payment.
5. Customer remits the amount due to the factor.
6. Factor makes the final payment to the client when the account is collected or on a guaranteed payment date.

Factoring being a fund-based activity cannot be made viable unless sources of funds are available to the factoring organizations at lower costs. This is especially true in case of full and international factoring.

Hence they should have facilities of refinance, raising of deposits and credit insurance etc. for the type of activity from the respective sources.

2 **Forfaiting:** In practice forfaiting is a flexible instrument, which can be tailored to meet the exporter's need.

The operation of the deal is simple; The transaction is first vetted by the forraiter, to arrive at a price. Once the price agreed upon, forfaiting is similar to discounting export bills locally – that is after shipment, the exporter presents the documents to the buyer's banker for acceptance. These accepted bills of exchange are sent to the fortfailer who then remits the discounted amount to the EXIM bank of India. EXIM in turn transfers the amount to the exporter's bank. The discount fee is paid up front as the operation is without recourse to the seller. The entire process takes 10 – 20 days. Which is equivalent to the time it takes to process the sight bill.

The merit of forfaiting is that, the exporter does not exhaust his post-shipment credit limits. This is because forfaiting turns a usuance export into cash sale.

The merit is true that most Indian exports have little problems in getting such limits from banks in case of export bills discounted, forfaiting in certain instances presents a cheaper alternative to the credit taken under the Pre-shipment Credits in Foreign Currency (PCFC) scheme.

3 **Depository services:** It is a system whereby the transfer and settlement of scripts take place not through transfer deeds and physical delivery of scripts which are traditional, but through the modern system of effecting transfer of ownership of securities by means of book entry on the ledgers of the Depository without the

physical movement of scripts. The new system would eliminate paper work, facilitate electronic book entry of the reduction in settlement periods and ultimately contribute to the liquidity of investment in provide depository services must register with SEBI. The depositor services will be available in respect of securities as may be specified by SEBI.

4 **Commercial Paper:** Commercial Paper (CP) is defined as short-term money market instrument, issued by way of promissory notes for a fixed maturity. It will be totally unsecured and will have a maturity period ranging from 90 days to 180 days. A CP differs from other money market instruments like banker's acceptance, which are obligations of both the drawer and the accepting bank. It could be compared with Company Fixed Deposits, through it differs from them as regards to the method of issue and the structuring of interest element. As CPs do not carry any security backing the RBI has allowed only sound companies to issue them initially. CPs will meet the short-term investments for parking temporary surpluses by corporate bodies as well as investments institutions.

5 **Treasury Bills:** Treasury Bills are short-term finance bills issued by the government usually at a discount. There are 91 days bills and 364 days bills, which are neither purchased nor discounted by the RBI. There are ordinary bills and ad-hoc bills too. The ordinary treasury bills are issued by the government to supplement its short-term needs while, the ad-hoc bills are created in favour or RBI to replenish the

cash balances of the government. Currently as the 364 days bills have a higher yields rate, they are more in demand than the 91-day bills. In May 1995 RBI has offered to convert 364 day T-bills in 5 years dated stock.

6 **Derivatives:** A Derivatives, such as option or features, are financial contracts which derive their value off a spot price time – series, which is called "the underlying". The world over, derivatives are a key part of the financial system. The most important contract types are futures and options, and the most important underlying markets are equity, treasury bills, commodities, foreign exchange and real estate. In a forward contract, two parties agree to do a trade at some future date, at a stated price and quantity. No money changes hands at the time the deal is signed.

Forward markets worldwide are afflicted by several problems: (a) Lack of centralization of trading (b) illiquidity, and (c) counterparty risk. Futures markets were designed to solve all the three problems (a, b and c listed above of forward markets in terms of basic economics. However, contracts are standardized and trading is centralized, so that future markets are highly liquid. There is no conunterparty risk (thanks to the institution of a clearinghouse, which becomes counterparty to both sides of each transaction and guarantees the trade). In futures markets, unlike, in forward markets, increasing the time to expiration does not increase the counterparty risk.

3.7 TECHNOLOGY POWER FOR FINANCIAL PRODUCTS

The growth of banking concept has been dramatic in recent times. While banks have been instrumental for various technological innovations, they have also been adapting the breakthrough to further their service by adding newer dimensions.

Apart from the extensive use of computers for accounting purposes and communications network of the general order, banks have introduced innovative concepts like Magnetic Ink Character Recognition (MICR) cheques, Bankers Automated Clearing Services (BACS),Clearing House Automated Payment Systems (CHAPS),Cash Dispensers (CDs),Automated Teller Machines (ATMs)are towards instant operational convince, including cash withdrawals. Point-of -Sale (POS) terminals facilitate instant retail banking transactions. Laser Cards have enhanced the utility of credit cards. The formations of Society for Worldwide inter Financial Telecommunications (SWIFT) coordinates international banking transactions through Satellite communications.

3.8 FINANCIAL SERVICES REGULATION AND LEGISLATION: IMPACT ON FINANCIAL SERVICES

All functions and responsibilities of financial service organizations (both Indian and foreign) are governed by the regulations stipulated by the Reserve Bank of India (RBI). For banks the two critical elements of Cash Reserve Ratio and Statutory Liquidity Ratio are fixed by RBI.

From time to time strictures are issued for matter such as revision of interest rates; change of policy ; foreign exchange regulations.

The Financial Services Regulations by SEBI & RBI are largely brought about to regulate the financial service organizations and protect the consumers. Financial Organizations including insurance companies have to abide by the regulations set down.

RBI has appointed various committees to carry out reforms in financial sector and have proper functioning and monitoring of financial service organizations as well as to protect the interest of consumers who avail services form financial service organizations.

All marketing efforts are financial service organizations have to be carried out within the boundaries of the recommendations of various committees. It may interest to take note of, while studying the marketing practices of financial service organizations, various recommendations made by various committees. Major recommendations of following committees are annexed with the study (as Appendix – II) to have an insight on marketing of financial service organizations.

1. Chakravarty Committee, 1985 (Committee to review the working of the monetary system)
2. Vaghul Committee, 1987 (Working group on the money market)
3. Narasimhan Committee, 1991 (Committee on the financial system)
4. Basu Committee, 1992 (Task force on money market mutual funds)

5. A. C. Shah Committee, 1992 (Working group on non-banking financial companies)
6. J. V. Shetty Committee, 1993 (Committee on consortium lending)
7. R. Jilani Committee, 1993 (Working group on cash credit system)
8. D. R. Mehta Committee, 1994 (Committee to review IRDP)
9. W. S. Saraf Committee, 1994 (Committee on technological issue)
10. O. P. Sodhani Committee, 1995 (Expert group of foreign exchange markets)

The role played by SEBI can also not be ignored while studying marketing of financial services. The Securities and Exchange Board Act of 1992 provides for the establishment of a Board to protect the interest of investors in securities and to promote the development and regulations of securities market. Various guidelines given by SEBI, for example, Guidelines for Debentures, Guidelines for Right Issues, Guidelines for Preferential Allotment, Guidelines (Norms) about Publicity and Issue Advertisement etc. are to be considered while studying / designing marketing strategies of financial service organizations.
