

A Consolidated Effort for Marketing in Commercial Banks

Dr. Parashar Koirala *

Commercial banks in Nepal still appear to be biased towards the traditional practices for the attraction of potential customers. Meeting the needs of potential customers in the 21st century with the knowledge and training of 20th century is a difficult task. Changes in the marketing strategy within a traditional working structure and system have led the banks towards increasing the non-performing loan (NPL). As every sub-system is a part of a system, a small mistake on the loan disbursement process reflects its implication on the loan recovery process. Hence, a new system in loan disbursement and a loan recovery process makes the bank more effective in its operations. In the new system, all the parties involved in decision-making process should be made responsible to their functions and they need to be penalized accordingly if they fail to promote healthy growth of the banking system.

I. INTRODUCTION

A bank's marketing starts with proper relationship with customers either to attract savings or for loan disbursement. Both the depositors and creditors are customers of the banks. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of products offered in the market. Deposit products offered to the customers are categorized into general products and special products. Mobilization of deposit simply by increasing the rate of interest is termed as general products and special products are developed in terms of schemes generally refundable at a longer period of time. Customers choose the respective better general products and special products from among the products available in the market. Special products focus on some specific value and needs of the customers. Under this come the education scheme for the children, daughter's marriage scheme and retirement pension scheme, among others.

Credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products

* Former Member, Board of Directors, Nepal Rastra Bank, E-mail: parashar_koirala1@yahoo.com

generally known as overdraft, working capital loan, term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against government securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short-term loan, medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.).

II. MARKET

Different types of products developed from deposit products and credit products by the 18 commercial banks, 28 development banks, 67 financial institutions, 5 rural development banks, 19 cooperative institutions, and 47 non government organizations (NGOs) operating limited banking functions are available in the Nepalese market. All these products cover the markets right from the niche market to consortium loan market. However, people in rural area still depend on traditional money lending practices for credit and they have no access to the institutions for depositing their small saving. Most of the banking products available in urban area were the products developed long ago. Hence, there is a need to develop more of these products as per the needs of the people.

Development infrastructure is very poor in Nepal. A limited net-work of roads connects the district headquarters and its extension to the Village Development Committees is a very difficult task for the government since it applies the existing development model with cent per cent government participation. Nepal is rich in water resource possessing high potentiality for hydropower generation; however, it is facing power shortage in winter as well as in summer during the last few years. Electricity in many rural districts is meant for domestic lighting and for conducting office work in the district headquarters. As compared to others, telephone network is better in Nepal. The introduction of the CDMA system of telephone has further enhanced accessibility.

Large-scale firms and middle scale firms have access to banks even if they are established in rural areas. Sugar mills, jute mills, cement factory, lime factory, and mica factory, among others, are set up in rural areas and their access to banks is similar to the factories established in urban areas. The problem of access to banks arises to individual entrepreneurs, cottage and small-scale firms that are established in rural areas. The banks believe that operation in the rural areas swells the transaction costs. The initiation of a study for market extension without increasing the marginal costs has never been considered. This shows the negligence of the banks to extend the market to the rural areas.

Among the different banking products available in the market, the products with high demand are consumer credit, export and import credits, term loan, project loan and syndicate loan. All banks and financial institutions on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the Bank of America has a vast range of banking businesses serving

individuals and small firms, and a big share of the loan syndicate market.¹ It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing markets and in creating new markets, too.

III. CUSTOMERS

Loan disbursement is a trade of win-win game. Lenders and borrowers both get benefited out of it. Customers, not products, are the ultimate source of income. For the analysis of customers, several questions need to be answered. These include questions such as which customers buy the product and how they use it, where customers buy the product, when customers buy, how customers choose, why they prefer that product, how they respond, and will they buy it again. All these data available in the respective files of the customers make the marketing activities quite easier and effective.

Nepal has factor abundance in tourism, water resources, and medical service industry. For many other sectors, the country faces the competition with India and China. However, the contribution of non-agriculture sector to GDP remained 62% in the year 2005/06. The sub-sectors that fall under the non-agriculture sector are mining & quarrying; manufacturing; electricity, gas & water; construction; trade, restaurants & hotels; transport, communications and storages; finance & real estate; and community and social services. As compared to the contribution of previous year, it increased just by 0.1 %. The manufacturing sector, particularly consisting of cotton and textile factory, is adversely affected by the inflow of cheap clothing from China. Sugar and cement factories and paper mills did not perform well owing to managerial problems. Thus, the non-agriculture sector is not free from a host of problems. Commercial farming by the marginal farmers is becoming popular in the agricultural land with access to road and irrigation facilities. Crop insurance that was supposed to be introduced ten years back has not yet been initiated. Though geographical condition is favorable for horticulture and floriculture farming in Nepal, it is at an infancy stage moving slowly towards commercial farming. However, the loan disbursement by commercial banks to production sector remained always higher over the others starting from 2002/03 to 2005/06. In terms of portfolio management, it covers more than 30 percent of the total loan disbursement in the respective years. The wholesale and retailing business occupies second position utilizing on an average 22 percent of the total disbursed loan during the respective years. The share of service sector so far has remained 10 percent.

In the beginning, there was a dominant role of Marwari Community in the large-scale business and industrial activities in Nepal. The Marwari Community is the professional class for undertaking business activities. The Newars and the Thakalis are the other business groups. The Newars believed in small businesses for sustainability and continuity. Nepalese thinking has changed these days. Every one, irrespective of the community he belongs, who has knowledge on business and some capital, wants to be involved in business. The increasing demand of business education around the world further encourages people to develop some idea on business. So, it is difficult to point out one or two communities representing the whole business sector of Nepal. Another feature of the Nepalese business community is its diversified portfolio management. No

¹ For details, see *The Economist*, July 29-August 4, 2006.

businessman solely depends on one business. Those operating sugar mills possess import license for sugar on the one hand and has real estate business on the other.

Business and finance are interrelated areas depending on their respective activities. In the absence of one party, there is no existence of the other party. It is common interest of both parties to have a win-win game. Parties involved in the win-win game seek to have common interest up to the existence of one party. The sharing of benefits out of the project leads to promote unity among the concerned interested parties. Table 1 shows the benefit matrix of the parties concerned.

TABLE 1: Benefit Matrix

<i>Status</i>	<i>Benefits</i>	<i>Loss due to Project Failure</i>
Promoters	Participation in management & dividend.	Effect on the life style
Equity holders	Dividend	Effect on the life style
Management	Remuneration and bonus	Effect on the life style
Staff	Remuneration and bonus	Effect on the life style
Customers	Quality product with added value	Availability of product in substitution
Suppliers	Timely payment	Amount of loss
Civil society	Employment opportunity and benefit sharing	Loss of opportunity
Bank	Repayment of loan and interest	Loss of interest and loan amount

A detailed analysis about the causes of project failure and role of stakeholders is needed to rescue the project and enable the bank to understand the behavior of stakeholders. The strategy should be taken to become very much alert in specific projects requiring close monitoring on the sources and uses of fund.

IV. CUSTOMER VALUE

Customers are value maximizers within the bounds of costs and limited knowledge, mobility and income. Customer value is taken in terms of economic value of the customer relationship to the firm or it is expressed on the basis of contribution margin or net profit. Customer's value in bank is assessed in terms of core benefit, basic product, expected product and augmented product. The fundamental benefit that the borrower buys from the bank is the project for operation, not the amount of credit. It is in the joint interest of borrowers and banks to run the project smoothly. From the smooth operation of project both the borrowers and the banks benefit, and thus it is said that they have common interest in running the project. In other words, the project that could not be run effectively, means it may be getting sick. A variety of reasons can be put forth for the sickness of the project: a) operating an unviable project; b) poor management system with absence of professionalism; c) siphoning of credit from one project to other; d) deteriorating condition with respect to the understanding between political parties pleading for social justice; e) worsening external relations; and f) innocent promoters

Many persons and firms are involved right from project development stage to selection of sources of finance and its relevant uses. So, the responsibility of project sickness should not be assigned solely to the promoters. The part of the responsibility of this sickness should also be assigned to the person/firm who had developed the project as a feasible one. As per the degree of involvement of the persons/firms in the decision making process, the consultant/firm should be punished accordingly. In case of necessity, a process of black listing is to be taken into account. Since the consultant/firm starts giving professional services in the form of feasibility study or other consulting services without making compromise with promoters, the problem of project sickness gets minimized.

It is the responsibility of the consultant to bring the banks and borrowers under one table. Hence, for the bank, the consultants/ firms are market makers. Without a project proposal, borrowing from the bank is not possible. The project proposal itself is a kind of application for requesting loan. After assessing the project proposal, the bank approves the amount of credit. The approval of the credit lower than the required amount implies some lacuna in the project proposal. If the project reflects beyond reality, it is better to reject the proposal rather than give approval for a lower volume of credit.

Marketing also includes the behavioral aspect of the staff. In the absence of staff with good behavior, no bank can function efficiently. The augmented product seeks extra benefit from the bank such as discount in interest rate on lending; the staff should be very able to handle and manage such products.

V. MARKET MAKERS

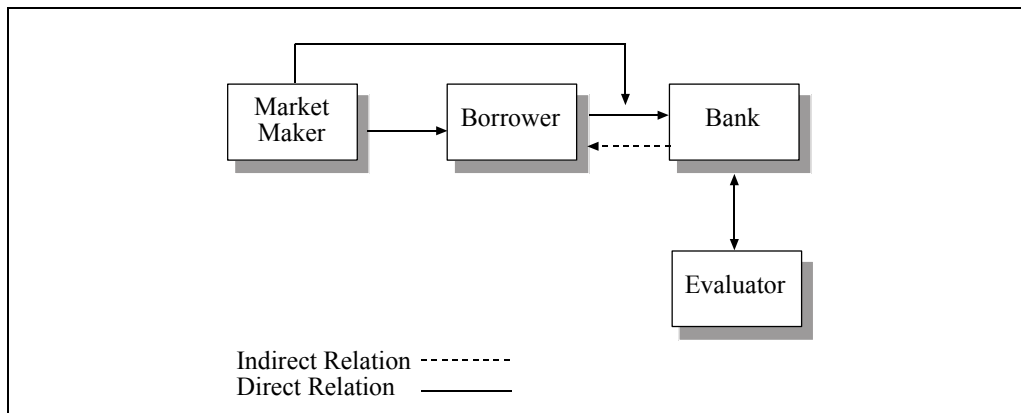
Market makers play an important role in the contract between the borrower and the bank. In principle, it is the duty of the consultant to sell the project on behalf of the borrower to the bank. The rejection of a project can raise the question about the knowledge and quality of the consultant. But in Nepal, after the preparation of the project, the duty of the consultant gets over. And, it is the borrower who exercises his personal contact to get the project approved.

Each bank follows some process and system for loan approval and for accepting the deposits. At first, the banks demand a detailed proposal of a project along with an application for loan. The respective loan officer assesses the proposal submitted to the bank and recommends for approval if the proposal is found viable. Normally, only feasible projects are accepted. The preparation of project proposal is a professional job assigned to any consulting firm or organization. The company that needs credit lacks that type of expertise within the organization. To get the bank credit properly and effectively, there is a network of the parties involved in borrowing. These parties are a) borrower, b) consulting firm for project preparation, c) bank and d) consulting firm for collateral valuation.

Till now, the role of the consulting firm has remained very nominal. Once a consulting firm prepares the project report on the basis of the terms of reference provided by the borrower and submits it to the bank, the responsibility of the consultant is over. The bank also uses the service of the consultant for the valuation of the collateral. No single consultant is eligible to handle both the jobs. The consultant becomes free from any obligation after submitting the collateral valuation to the bank for loan approval. In

banking business, these two consulting firms play important roles in facilitating the right decision-making pertaining to the viability of the project and the amount of credit to be approved to the borrower.

FIGURE 1: Network of the Parties Involved in Borrowing



Market makers and borrowers have direct relation with each other (Figure 1). The proposal for project viability prepared by the market maker along with the required credit is submitted to the bank by the project promoter alone or at the time of submission the market makers accompany the project promoter to the bank. The evaluator works under the terms of reference of the bank and recommends the estimated value of the collateral. Nepal Rastra Bank, as the regulator, has an indirect relation with the bank. Depositors, on the other hand, play a crucial role for the growth and survival of a commercial bank. No banks can survive without gaining confidence from the depositors. These depositors should not be confined to their interests only on the interest rate. They should be mobilized to make some indirect control for effective delivery of banking services. Those possessing direct relation should take third parties responsibility on the collection of defaulted loan.

VI. CUSTOMIZATION AND CONVERGENCE

Banking products offered these days are generally very much standardized. As per the type of the product, some of the customers adjust their needs accordingly. Banks do have the experience of working in de-marketing in Nepal. There is no competition in offering products at different interest rates. It looks like a banks' cartel in charging interest on loan and providing interest on deposit. On the basis of customers' survey, banks should develop the respective products and sell them into the market. In this age of new economy, 'knowledge' is termed as a driving force of the economy. Besides, knowledge is taken as factor of production in lieu of land, labor and capital. In a new economy, customers design their products and hand them over to the banks for development and marketing accordingly. In foreign countries, banks differentiate the products, services, prices and delivery channel for each customer. To compete with the foreign banks, the

Nepalese banks have to consider the new challenges and encourage the customers to identify their needs and develop capability to meet such designed needs. A new system in a new economy may be popular among the educated people. For the new economy, it needs to have network that connects potential customers and banks. These networks include the intranet where employees are connected within a bank to one another and to the bank mainframe; extranet where a bank is connected with suppliers and market makers; and the internet where consumers are connected to the worldwide “information repository.”² The combination of operational customization and marketing customization is called customerization. The process of customization may be very difficult to implement for complex products.

With the passing of time, there should be a change in the models of commercial banks. In the changing context, commercial banks have started to plunge into investment-banking markets. Barriers between banks, insurance companies and securities companies have been gradually reducing allowing the formation of diversified financial groups. Each of the big banks has moved some distance from the traditional banking strategy of holding assets on the balance sheet. Banks in the developed countries have started to use loans as securities and sell them in the capital markets rather than to hold them in the balance sheet. On top of that, the large commercial banks have become buyers and sellers of derivatives, such as credit-default swaps and interest-rate swaps, both for profit and to hedge their other assets and liabilities. In this way, the bank acts as a lender and as a trader. In each stage of business transactions, it needs to have marketing activities. Without proper marketing both in ability and practice, banks may not be able to survive.

VII. CONCLUSION

Banking business looks not free from the bad days when compared with business conditions in global scenario of 15-20 years ago. An effective system for borrowing from bank and an efficient system for its recollection have not yet been developed in Nepal. Beneficiaries from successful outcome of the project are many in number but the failure of project has affected the banks only. Unless all the beneficiaries get united to a system not only for project success but also for the project failure, there will remain a higher level of defaulters. And for promoting the diversified functions of commercial banks, it needs to have integrated marketing efforts applied in all respects. Thus, enhanced marketing and market compatible strategies will not only reduce the problems of the banks but also provide cushion to meet the persisting challenges of the banking system.

² For details see Kotler (2005), p. 24.

REFERENCES

- Banking Promotion Centre. 2006 *Banking Khabar Patrika*. June-July. Kathmandu: Nepal Rastra Bank.
- Hempel, George H., Donald G. Simonson and Alan B. Coleman. 1994. *Bank Management: Text and Cases*. Fourth Edition. New York : John Wiley & Sons. Inc.
- Koirala, P. and P. Bajracharya. April 2004. "Nepalese Capital Market: Issues and Challenges". *Economic Review*.
- Kotler, Philip. 2005. *A Framework for Marketing Management*. International Edition. Japan: Pearson Education Inc.
- Ministry of Finance. 2006/07. *Economic Survey*. Kathmandu: Government of Nepal.
- Nepal Doorsanchar Company Limited. 2006. *Annual Report 2006*. Kathmandu: Nepal Doorsanchar Company Limited.
- Nepal Rastra Bank. *Annual Report of Bank Supervision Department*. Unpublished. Nepal Rastra Bank.
- Nepal Rastra Bank/Asian Development Bank. 1994. *Nepal Rural Credit Review*. Kathmandu: Nepal Rastra Bank.
- The Economist*. July 29-August 4, 2006.