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Marketing of Financial Services: A Case Study of Indian Home Loan Market

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Abstract: *Financial services are introduced to be one of the significant business outputs that pose special challenges to market them. Few of them include intangibility, inseparability, limited differentiation, and fiduciary responsibility. Contribution of financial services towards escalation of varied segments of the economy is immense. Considering this backdrop, the present study at the outset aims atunderstandingdifferent characteristics of financial services and examines diverse challenges encountered in marketing them. An attempt is made to indicate pragmatictechniques in order to overcome the visible challenges. The study is being intensified with a special focus on present home loans scenario in India. The methodology adopted here is based on the secondary sources of information along with a semi-structured primary investigation carried out for the purpose. The same goes through a review ofselected research studiesundergone at various levels. Findings reveal housing shortages that eventually indicates problems faced by the home loan borrowers. The study concludes with an insight on conceptualizing actualneedofa potential customer who is deprived of a shelter. i.e. a sweet home.*

Key Words: Financial Services, Challenges in Marketing, Indian Home Loan Market.

Introduction

Modern 21st century witnesses a service orientation. The technological advancement and the changing nature of services contribute towards this transformation. The case of India is no different**.** India's services sector has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows, FDI inflows, and employment although the contributionis not as high as the developed countries . The service sector represented more than 75% of total employment and at least 78 % of the gross product of United States in 2009. However the sector represented 26.8 % of total employment and around 57 % contribution towards GDP in the year 2011-12 in India. India's service sector covers a wide variety of activities that includes information technology, telecommunications, hotels, restaurants, transportation, personal services and financial services. The growth of financial services is also a promised one. India's exports of financial services also registered a high growth of 34.4 per cent in 2013-14. As it is a growing sector it is profitable to understand the challenges of marketing these financial services and to develop relevant strategies to overcome them.

This paper aims at understanding different characteristics of financial services and examines diverse challenges encountered in marketing them. It also brings about the difficulties people faced while availing home loans and suggests measures to overcome them.

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Objectives of the Study

The study primarily aims at:

1. To examine core characteristics of the financial services.
2. To indicate diverse challenges in marketing of financial services and suggest relevant strategies to overcome them.
3. To have an insight regarding varied issues and problems faced by home loans borrowers in India.
4. To conclude the project with meaningful inferences.

Services indicate deeds, processes and performances in simplest terms. They are intangible, heterogeneous and perishable. This makes a service slightly different from a product and so does its marketing techniques. Products can be touched, seen, felt and they do exist physically. They are homogeneous where in two packets of biscuits would contain the exact same amount of ingredients and would taste the same. However services are heterogeneous; the service provided to two different customers cannot be exactly alike as they are deeds or performances done by humans. The service provided would depend a lot on the behavior of the customer as well as the internal environment such as the mood of the provider.

Products can be manufactured and stocked. Services on the other hand need to be simultaneously produced and consumed. Due to this characteristic, services are sold first and then produced and consumed simultaneously unlike goods which are produced first and then sold and consumed. Services are also perishable which refers to the fact that it cannot be saved, stored, resold or returned. Thus, marketing a service would be quite different and difficult as compared to a product as we would be describing and pursuing someone to purchase something which cannot be shown or stocked. The same applies to financial services as well.

Financial services encompass a broad range of institutions that manage money. The same include credit unions, banks, credit card companies, insurance companies, accountancy firms, consumer finance, stock brokerages, investment funds, real estate funds and a few government sponsored enterprises. A financial service is not a financial product itself like a loan or mutual fund or an insurance policy, but something which is best described as a process of acquiring the financial products. In other words, it involves the transaction required to achieve the financial product. Marketing of financial services comprises of all those activities which go into convincing a person to purchase financial products. Thus marketing of financial services proves out to be very challenging as the customer should be driven enough to trust credentials of the service provider.

Review of Literature

In an article posted by Stevensonfinancialmarketing, some challenges of financial services marketing are being discussed. One of the challenges is a general lack of consumer awareness of the various dimensions that constitute a financial service. The author states that consumers' education on financial services is generally very poor and their ability to fully process the information presented to them in financial services advertisements are comparatively limited. The natures of financial services are generally uninteresting and unexciting, which adds to the task of appreciating the differences among financial services more challenging for the average person. Secondly the quality of financial services is rarely quantifiable in some cases where the customers would never have experienced the service provided. In case of an insurance product, large number of customers/policyholders may seldom experience losses firsthand and known about the quality of services. It is the task of the financial services advertiser to create an understanding and appreciation for the underlying qualities of an advertised financial offer.

Thirdly , the consumer involvement with the benefits of an insurance policy, the rates of return on an investment product, or the checking account services provided at a commercial bank rarely cause a great deal of excitement and enthusiasm as when compared to buying a new dress or a mobile phone . As a result, financial services are usually not associated with high levels of consumer involvement, excitement, symbolism, or emotions. The quantitative and contractual nature of financial services requires considerable cognitive effort and mathematical processing before consumers can fully appreciate the merits of an advertised offer. Financial products may not always be communicated to consumers in ways similar to how consumer goods are advertised. In an advertisement of an insurance policy or investment product, the challenge is how to present abstract, intangible products visually.

Finally the practice of financial services advertising is further complicated by the massive number of regulations that restrict the contents of financial services advertisements, and the number of regulatory agencies that closely monitor and influence ad content. Elaborate and complex sets of criteria need to be met in order to attain regulatory compliance. This restricts the advertiser's creative process, and makes the task of financial services advertising a highly unique specialization. Thus marketing of a financial service becomes even more challenging. The other challenges include limited differentiation in the services. The services provided by different service providers would be almost same with hardly any distinct differentiation. Moreover the product attributes could be easily copied by the competitors. [5]Mutual trust is also another factor or a challenge which effects in marketing as financial relationships are often built over a long period of time and are very sensitive to changes in mutual trust.

In order to overcome these challenges, a proper marketing strategy has to be implemented. Marketing strategy is a plan for selecting and analyzing a target market and developing and maintaining a marketing mix that will satisfy a target market. The tools used in making marketingstrategy are market segmentation, environmental analysis, the selection of target markets for the firm's segmentation efforts and the development of unique marketing mixes for each segment targeted.

Market segmentation is the sub-dividing of a market into homogeneous subsets of customers where any subset may conceivably be selected as a market targeted to be reached with a distinct marketing mix. Market segment describes a class or group of buyers with a broad set of requirements or susceptibilities which for marketing purposes, can be distinguished from those of other groups or classes. Proper market segmentation would enable the financial service provider to identify and focus on the most potentially profitable segment to satisfy the needs of the segment.

According to Kotler, market segments should satisfy certain criteria. The segments should bemeasurable, substantial, accessible, differentiable and actionable. The size, purchasing power and characteristics of the segments should be easily measurable. The segments should also be large and profitable enough to serve and effectively reached. Segmentation was based on demographic and geographic lines traditionally. The psychographic and behavioristic segmentation variables were applied later. Geographic segmentation divides the market according to the different location. The banks could obtain differential advantages by promoting different market offering for customers living in different locations such as metropolitan, urban, semi-urban and rural. Demographic segmentation involves division of the market on the basis of age, sex, income, occupation, education, religion, social class, family size as their needs and demand would vary based on these different attributes. The inclusion of family life cycle in this category was recently made on the recognition that a person's wants will change depending on whether he or she is single, married, married and have children, pensioned etc. Demographics are a popular basis for segmentation, since they often have a strong and significant relation to banks sales, and can be easily measured.

Psychographic segmentation was developed to overcome the general inadequacy of social class variables in the identification of customer attitudes, living style and personality. Behavioristic segmentation divides customers in to groups based on their usage of products or services, known as value segmentation, and based on the customer perceptions in relation to banks services. The main purpose of segmentation would be to identify the various different needs of each segment and modify and market the service accordingly.

Having segmented the market, the marketer's task is to devise marketing activities and programs to create, communicate and deliver value for these consumers who have been segmented. The various marketing activities have been classified as marketing –mix tools of four broad kinds which are product, price, promotion and place. The services has an additional three P's added which are people, process and the physical evidence. Manipulation of the product, price, promotional activities, process, and physical evidence comprises one of the major decision stages in the strategic marketing process. They would also be differing from segment to segment as the marketing activities related to one segment would not be so effective with the other.

The product can be understood asthe utility or the benefit which a customer receives. When a customer purchases a financial service, he is actually buying security of his money, convenience, help to manage his financial needs like children's education, building a house, children's marriage etc. Pricing relates to the charges of the financial services provided**.** The price of a product or service has a strong impact upon the image of the product as well as an economic impact on the bank. For a long time price in the banking industry had been regulated and banks were forced to compete on non-price basis. Only recently the banks got the freedom to fix their individual prices for various services. The promotional activity goes into building of image and reputation, differentiate from competitors, generate awareness, interest and knowledge, attract new customers and generate customer loyalty. As the understanding of a financial services are quite complex to a common man it requires interactive dialogue by sales people. The promotional activities should build relationships with the customers in order to transform single-service users in to multi-service, clients and indifferent customers in to loyal clients.

The fourth 'P' stands for place. Place refer to the platform where the transactions take place. Decisions relating to the delivery of financial services are animportant component of marketing mix. Convenience is the most important factor in the financial services business. As such much importance is given to the branch location, communication network, parking facility, and net banking services. The process / procedures focuses on the mechanisms by which service is delivered, degree of mechanization and business policies. No one would prefer to visit a bank where it would take hours together to withdraw money from an account. The physical evidence component of marketing mix refers to the environment in which the service is delivered and the tangible items, which are associated with that service. Lastly the 'people' in service organizations is the most important element who makes a difference to the customers. The service can be turned into a long lasting impression or a worst nightmare by the people working there.

The marketing strategy aims at enhancing the competitive efficiency of a financial service provider. This is achieved through differentiating the products / services from that of its competitors. They generally have very little opportunity to differentiate themselves from one another because of the similarity in respect of a wide range of quantitative factors including price, type and range of services offered etc. Hence emphasis should be given on qualitative aspects of banking such as friendliness, courtesy and quality of service to differentiate themselves from each other. The key to successful marketing is an understanding of the perceptions ofthe customers regarding the products/services of the service provider in relation to its competitors.

Methodology

Keeping in view the nature of study, the methodology framed out here is essentially based upon the secondary information. The sources of data comprise of books, journals, periodicals, web database, reports, regulatory publications and related plan documents. The primary information seems to be diminutive and hence the authors initiate the project with a review of selected empirical literatures obtained at disposal. The geographic extent of the study is confined to national boundary of the country. The research, as a whole is not being carried out on the basis of any pre-determined hypothesis. Rather, an open mind to the possibilities of secondary information and outlook of the subject is ensured for data accumulation and interpretation. The entire approach adopted here is just a review and exploratory in nature.

Observation and Discussion

Apart from the various issues in the marketing of financial services, this paper also throws some light on the Indian Home Loan market. Traditionally Indians were debt-averse and opted for loans only as a last resort. They avoided taking loans as it was also considered as a burden or a stigma in their society. This view slowly started changing and Housing and Development Corporation (HUDCO) was also established to finance various urban and infrastructure activities along with other players. This was followed by the private participant, Housing Development Finance Corporation (HDFC) in 1977. Since then, the housing finance in India has been flying high. This is because everyone is not so fortunate enough to purchase or construct a house with his savings alone. As the investments required purchase/construct a house is very high and home being a basic necessity of life, people resort to these financial institutions. The Technical Group on Housing Shortage has estimated the housing shortage in urban India at 18.78 million units in 2012. They have also reported that 95% of the shortage of housing is in the Economically Weaker Section / Lower Income Group segments [10]. Home loans, being a financial service, and marketing of this financial service would be to understand the real needs of the customer and to present a proposal or a scheme which would help the customer accomplish their dream home according to their conveniences thereby making a profit in the transaction. An attempt has been made to understand the different types of difficulties and issues brought by different researchers in the Indian Home loans scenario.

S. TarakeswaraRao (2013) in his study conducted in Andhra Pradesh describes about the various experiences of the respondents. The respondents as customers felt that there were too many formalities and there was also a delay in the loan processing and sanctioning. Some of the terms and conditions especially with regards to the change in the interest rates were not communicated to the customers. They had also faced the problem of uncooperative attitude of the staff members.

In an article dated Nov 13th 2013 on Times of India, the author also has stated some of the issues faced by home loan borrowers in the country. They were about the discrepancy in interest rates between existing borrowers and new borrowers, porting of home loan, stringent rules by lenders and clauses on fixed rate home loans. Another study on Housing Finance, made by Thingalaya, Moodithaya and Shetty, 2009 has also found that most of the respondents reported inadequate guidance, cumbersome procedure, difficulty in obtaining land title to the property, legal opinion and valuation, problem of obtaining surety required by the bank and inordinate delay in appraisal of loan application. In the same study they have also revealed certain issues which enlightens about the home loan market scenario in India. It was found that the rapid growth of housing finance is concentrated mainly in metropolitan and urban areas which cover around 90 per cent. Apart from widening rural urban divide, banks would face high potential risk as the volatility of real estate prices in such areas is very high. Secondly the analysis of home loan portfolio of the banks shows the widening regional disparities in housing finance. While states in Southern and Western regions have obtained greater share of housing finance, the states in North-eastern, Eastern and Central regions are neglected by banks where concentration of housing loans was mostly in metropolitan areas and in a few developed districts. The growth in housing finance has remained largely focused to the middle and upper income strata mostly concentrated in metropolitan / urban areas. This indicates that the commercial banks are increasingly catering to the housing needs of upper middle class. Banks have invariably excluded lower income groups, slum dwellers, self-employed, rural households and people having very poor asset base. They, in fact, constitute the deprived section of the community in the housing sector. An inclusive housing finance system with accessibility and affordability alone can help to meet the growing housing needs of the deprived section of the community.

It has also been noticed from Table 1 that there has been a tremendous increase of the share of the private sector banks in the total lending to the housing sector. It was less than 7 percent in the year 2001 and it has increased to 33 percent in the year 2007 and ICICI bank and HDFC Bank are the major drivers of housing loans in the private sector. However in the year 2013 the market share of SBI increased to 33 percent and the private sector banks went to 26 percent. On the other hand the total amount allocated to housing finance also has increased by more than 100 percent from 2007 to 2013. The total outstanding amount was 228,923.35 crores in 2007 and it reached to 464711.18 crores in 2013. This shows that there was a tremendous growth in the housing finance sector.

Table 1:

Bank group wise Housing Finance : All India (as on March 31)

Bank Group	**2001**		**2004**		**2007**		**2013**	
	No of Accounts (Lakh)	**Amount (Rupees in crore)**	**No of Accounts (Lakh)**	**Amount (Rupees in crore)**	**No of Accounts (Lakh)**	**Amount (Rupees in crore)**	**No of Accounts (Lakh)**	**Amount (Rupees in crore)**
SBI & Associates	8.08	7,978.80	9.23	21,248.59	15.75	51,166.73	24.62	154,454.01
Nationalised Banks	12.37	12,684.63	13.88	34,156.14	21.51	88,433.29	26.44	163,762.10
Foreign Banks	0.35	2,011.94	0.63	5,705.76	0.76	11,355.07	0.82	19,616.34
Regional Rural Banks	1.94	824.73	1.85	1,913.50	2.68	3,167.03	3.07	6,674.02
Private sector Banks	2.08	1,912.32	4.75	22,322.45	9.40	74,801.23	10.76	120,204.71
Total	24.82	25,412.42	30.34	85,346.44	50.10	228,923.35	65.70	464,711.18

Source: *Basic Statistical Returns of Scheduled Commercial Banks in India, RBI*

Conclusion

As a home is a basic necessity of life and it would also be a social responsibility of a business to promote and assist towards providing a decent living, banks can be a little considerate about the various problems which are presently encountered. Home loans, being a financial service, banks should now spread their advances towards the semi- urban and rural areas too to narrow the urban /rural imbalances. The customers are also unaware of terms and conditions, procedures to be followed and legal and financial aspects of home mortgage loans. It is necessary to educate home loan buyers on the processes and regulations involved in purchasing a house or flat, various terms and conditions for home loan particularly on floating and fixed interest rate contract, EMI, valuation of properties, documentation, etc. The need for greater transparency in housing finance transactions to enable borrowers to make right choice about products and loans is the primary requisite of a well functioning sustainable housing finance market. This would be only possible if banks have a good well trained staff to explain and understand the customer's problems and sympathetic enough to walk the extra mile to make the customers attain their dream home.

Authors' Note

This manuscript is the authors' original work, has not been published and is not under consideration for publication elsewhere.

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