

The customer segmentation in indian banking system business essay

[Finance](#), [Banks](#)



About two decades ago, when private players started rolling out their services, the state-run banks, who had in their grip almost entire retail customers in India, sensed it could be the beginning of a change, but probably never realised it would come with so much force and hit them hard. And they sure had no idea that after moving at an elephant's pace for so many decades, they might be forced to change quickly and probably beyond recognition. The arrival of private banks, and in a limited way the foreign banks, changed the way banking was done in India. They changed retail customers' expectations and the preferences and now in a fiercely competitive space, every bank wants to get a handle on the rapidly changing consumers' taste and raise its service to retain and gain the market share.

Our study conducted on educated middle-class working professionals in New Delhi offers an insight into how today's customers are picking their banks and ending contacts with those, which fail to satisfy them. The survey's findings underline the traditional services such as prompt and courteous services at branches are still important for bank customers. The study clearly highlights that customers value banks with bigger network of branches and ATMs as they consider it more reliable.

Customers do prefer to have an account with a bank where their family members already have one. They also put a premium on a range of so-called new range of services: lower call waiting and the ability of the customer care staff to quickly understand their problem and connect them to the right executive.

Another interesting outcome was that most customers had more than one bank account and thus could pick bank for specific services.

Introduction: India is on the path to become a global economy. Financial Institution specially banking industry plays a very important part in India's growth. Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government - owned bank that traces its origins back to June 1806. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India. After India's independence, the Reserve Bank was given broader powers. In 1969 the government nationalized the 14 largest commercial banks; another six banks were nationalised in 1980. Currently, India has 88 scheduled commercial banks (SCBs)- 27 public sector banks, 33 private banks and 38 foreign banks. They have a combined network of over 53, 000 branches and 17, 000 ATMs network.

Banking In India can be divided into three distinctive time period as described below.

Pre-Nationalization Era: Private banks with individual holding were present in pre-nationalization era and Lockout of Banks were the reality in those days. With very little security & regulatory mechanism Banks were functioning as discrete assets and there is very little presence of consumer services and security of assets.

Post-Nationalization Era: With the backdrop of large no of incident regarding lock out of banks, Central Government had to take a drastic step and they had done the same by nationalization of Banks. Due to involvement of the Government, credibility of banks increased many fold and banking as a sector has started to grow in India. Due to very low or no competition at all government owned banks had started to function like monopolistic services with very little focus on customer services.

IT-enabled era: After 1991 private banks with sound security mechanism were again allowed to enter into the banking segment. ICICI Bank, Axis Bank, HDFC Bank started their operation with state of the art IT infrastructure, which enable them with better service delivery and meet consumer expectation. Following the same trend and due to Government regulation Government owned banks like SBI, PNB, BOB had also started providing customer services through IT enablement. Due to some recent development like non-regularization of interest rate some banks had also gone ahead and started to offer differentiated product to make the banking more interesting. Recently government has started to think for allowing business houses for having the banking license. This can really be a game changer for Banking industry as more no of bank will open and try to fetch customers from the competitors with focus on customer preferences.

As far as the customer segmentation in Indian Banking system is concerned, it is divided into three broad segments.

Corporate: B2B transactions are covered in this segment

Mid-Corporate: Transactions with SME is considered under this segment.

Retail: Small individual customers are covered under this segment

The opening of the banking sector to the private players and India's rapid economic growth in the past decade has dramatically changed the financial sector landscape in the country. The keen competition brought customers to the centre-stage – something unimaginable till about two decades ago when the state-run banks held monopoly and customers' convenience was barely on their agenda. The power has now clearly shifted from banks to the customers, as private players scrambled to gain market share by raising service level, introducing innovative products and deploying technology at an unprecedented scale to woo customers. The expansion of foreign players, though limited, raised the consumers' expectation and fuelled further competition.

To match the private players, leading state-run banks initially, followed by regional banks, have raised the game and now probably every player is willing to give an arm and a leg to get an insight into the consumers' behaviour.

We have limited our research to educated working middle class in New Delhi – a retail sub-segment that is attractive to banks – because of paucity of time and resources. The findings cannot be generalized for the entire country.

Review of Literature

The Ernst & Young Global Banking Consumers Survey 2011 has highlighted how customers were increasingly switching banks and preferring transparency to loyalty. The report said pricing was critical to customer satisfaction, although most customers had no idea how much they pay each year for services. Transparency over pricing and service promises is vital if banks are to deliver something customers value. An under-delivery of promised service was a big turn off for customers.

Uppal, R. K. (2010), analysed in his study the complaints against Indian Public sector, private and foreign banks. The majority of complaints received were against the public sector banks and the complaints were related to deposit, credit cards and housing loans, clearly showing how state-run firms were unable to raise the quality of services. The study recommends the strategy to mitigate the complaints.

RBI Report, Committee on Customer Service in Banks (2011), analysed evaluation of customer services in Indian Banking History. The main objective of the study was to find existing customer services in the Indian Banking system and future roadmap on the same. Authors have emphasized on customer education, involvement of stakeholders for launching any new services, comprehensive banking regulation. Focus on technology will also become major indicator for rolling out and success of services such as Internet Banking. Performance Assurance scheme for enforcing the banks to follow strict performance guideline is also mentioned in the report. Various

other improvement aspects like issuing Photo ATM card and fraud detection procedure were also listed in the report.

In his research on customer's preference (2012), Md Nur-E-Alam Siddique of ASA University in Bangladesh has concluded that the most important factors influencing customers in selecting a private banks are speed and quality of customer services, image of the bank and quality online banking facility. The customers, however, chose a nationalized bank mainly due to low interest rate on loan, safety of deposits and convenient location, the report said.

Mosad Zineldin, an Associate Professor at Stockholm University, brought forth some interesting trends in his research on bank customers' preferences. The study said the price and advertising had a minor effect in a bank selection, while functional quality such as friendliness and helpfulness of staff, accuracy in account transaction management, efficiency in correcting mistakes were the major determinants of bank selection.

Kannan. P., et al. (2012), emphasized in their study that service quality was an interesting field to evaluate the customer satisfaction. The main objective of the study was to examine the consumer preference towards the banking services in rural areas on the basis of (i) demography (ii) type of banks (public, private and cooperative bank). (iii) customers' preferences. This study concluded that the satisfaction level of the rural customer was good.

Research Methodology: We have adopted Descriptive Research Design for conducting the Research. Under Descriptive Research design we have conducted cross-sectional design, where data have been collected only once

from the target audience. Another important point for emphasis in the research design part is that Indian Banks segment its customer mostly in three major category i. e. Retail, Mid- Corporate & Corporate. For the purpose of this research project we will only consider the retail segment or the individual customer. As we have only followed the Convenience Sampling method for collection of data that too only for a segment of consumers, so it will not be possible for generalizing the result across the other segment.

After reviewing the literature we have segmented customer preference in five key segments as shown below in the picture.

Skill, responsiveness, friendliness

Variety, cost, suitability

Credibility, Technological efficiency

Processes, Rules, Waiting time, Speed

Network, location, phone/online

Among the 5 segments shown above, image and personal of a Banking System is very difficult to change. Access of the banking system is majorly related to the investment that the Bank can undertake for improving its IT backbone. Product and services are can easily be changed if the entire infrastructure is already available with the bank.

Survey questionnaire was designed based on the five key factor of customer effectiveness, as shown above. Flow of the questionnaire is described in the diagram below.

Questionnaire was designed in the Google spreadsheet and link of the survey was shared in the mail for the sake of convenience. Another important aspect of data collection through Google spread sheet is that, a high amount of data integrity check is already built into the system as user can not pick up any alternative other than mentioned in the web format.

Conclusion:-

The research findings have brought good news for the banks. Most respondents (81 percent) are happy with customer services at banks, thereby giving the existing banks a pat on their back, while signaling that new entrants will find it extremely difficult to find a toehold in the fiercely competitive banking market once the RBI were to issue new licences.

Family again has come to the rescue of the banks in India as majority of our respondents prefer a bank if their family members already have an account there.

Banks with greater network of branches and ATMs are preferred over those with smaller networks. Customers see high value and reliability in dealing with large-network banks.

Customers naturally also value lower service charges.

So for any new entrant in the Indian Banking Sector has to offer low cost services to consumer for attracting them in their fold.