

COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: BANKING AND
FINANCE

ALPHA SEMESTER

300 LEVEL



Raising A New Generation Of Leaders

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BFN 316: Financial services marketing

COVENANT UNIVERSITY

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TITLE OF EXAMINATION: B.Sc BANKING AND FINANCE
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COURSE TITLE: FINANCIAL SERVICES MARKETING

INSTRUCTIONS:

- (i) ATTEMPT FOUR QUESTIONS (ii) ANSWER TWO FROM EACH SECTION
- (iii) TIME ALLOWED: 2 HOURS 15MINS (iv) ALL QUESTIONS CARRY EQUAL MARKS

SECTION A

QUESTION ONE

The Head office of your bank is planning a Financial Service Marketing Seminar, in which one of your branch staff is expected to present a topical paper. Your branch has nominated you (as the most senior marketing staff) to present a paper at the seminar on “Developing products to enhance competition in banking”. Use your knowledge of Bank Product Development to prepare the draft of your paper. (17 ½ marks)

QUESTION TWO

What are the factors involved in Marketing Banking Services effectively? (17 ½ marks)

QUESTION THREE

- a. Ethics is the study of moral standards. However, overtime, some unethical practices have found their way into banking. You are required to list and discuss some of those unethical problems in banking as presently observed. (5 ½ marks)
- b. A typical marketing plan should contain the following sections: (i) Executive Summary, (ii) Review of previous/current year’s performance, (iii) Situation analysis, (iv) objectives and goals, (v) strategy statement. Explain, in details the importance of each section. (12 marks)

SECTION B

QUESTION FOUR

- (a) The new acquired banks by CBN are facing problem of mobilizing deposit from customers because of withholding actions placed on them. As a result, intermediation function is made difficult. You have been asked to give a talk on the topic “the factors that would lead to decline in deposits”. How would you present the talk? **(9 ½ marks)**.
- (b) With the serious competition for customer’s deposit; banks’ intermediation of funds is becoming more difficult sometimes causing temporary illiquidity. To avert this trend requires bank marketing effort to be intensified in order to lure more customers. Therefore, what are the factors that you consider will influence customers towards the branch of a bank?
(8 marks)

QUESTION FIVE

- (a) Distinguish between marketing of financial services and marketing of goods.
(8 marks)
- (b) Explain how the macro/micro environment forces affect marketing of bank financial services **(9 ½ marks)**

QUESTION SIX

- (i). Establishing the correct price for a banking product is a complex task. Discuss the factors to be taken into consideration before setting the price for a bank product.
(11 ½ marks)
- (ii) Mention and briefly explain the ways a bank or firm can respond to price changes during inflationary trends or excess demand **(6 marks)**

**MARKING SCHEME: BFN 316: FINANCIAL SERVICES MARKETING 2014/15
ALPHA EXAMINATION**

QUESTION ONE

The answer is expected to discuss the Bank Products Development as follows:

1. Auto Loans.

This product finances acquisition of personal vehicles. The amount and tenor of the facility vary with the type of vehicle being purchased subject to a maximum of four years. Applicants are usually required to make a minimum equity contribution of 30% of the cost of vehicle, while the vehicle so purchased is taken as collateral duly registered in the joint name of the beneficiary (customer) and the bank. It must also be insured comprehensively.

2. Personal Home Loans

This product is for: outright Home Purchase, Home Construction, Land acquisition or Home refurbishing/Renovation. The locations of the properties are usually limited to commercially viable places so that in case of recourse, the bank will be able to dispose of the property without stress. Maximum tenure for the facility is 10 years and contribution of beneficiary is 30% of cost.

3. Household Equipment Loan

This product offers finance for acquisition of household items such as Deep Freezer/Fridges; Electricity Generating sets, Furniture; Computer sets, Kitchen Equipment; Laundry Machines etc. The value and tenure vary with the cost and type of household items being financed, subject to maximum tenure of two years. Applicants shall be required to make 30% contribution towards the cost of acquiring the item.

4. Share Purchase Loans

This product enables customers to borrow from their banks to purchase shares in blue chip quoted companies. The facility is for shares on offer both in the primary and the secondary markets. Maximum tenure is two years, and repayment is usually done monthly from salary deductions or from the sales of the shares so financed.

5. Personal Loans against Salaries for Sundry Purchases.

This product is designed to offer loans to salary earners with clearly identified and regular salaries in order to meet urgent financial obligations such as School fees; Medical bills; Travel Expenses; Maintenance/repairs of property and taking advantage of investment opportunities. This is subject to tenure of one to three years with monthly deduction from salaries of beneficiaries.

6. Employee Consumer Loan

This product is devised for corporate Organizations and the purpose is to manage loan schemes for the employees of the company. It entails that the bank and the company agree on the limit of credit exposure to the employees of the company and also the types of loan to be granted to the employees. The bank will make the funds available to the employees and arrange to disburse and obtain repayment. The company stands as guarantor.

7. MTN X-Charge Card.

UBA and other banks have this electronic banking product. It is an electronic card which can be used to purchase airtime; it can be used for cash withdrawal, and for payment for goods and services at MTN Service Centres and Stores. All one needs is to get an MTN number.

8. U-Mobile and U-Direct

These are e-banking products that allow customers to access their account information such as statements, balances, and particular transactions via mobile phone and the internet. They also allow subscribers to carry out basic banking services anywhere in the country from the convenience of homes, Offices etc.

9. On-Line-Real Time Banking

First Bank Plc and several other banks have a Banking Application (Finacle) which enables current Account holders in any of their branches to transact business on-Line-Real-Time directly on the customer's account from any of the branches.

10. Specialized Loan Facilities

Many banks: FBN Plc, UBN Plc and UBA Plc among others provide specialized loan facilities such as:

SME (Small and Medium Enterprise Loan)

Export/Import Finance.

ADB/ESL (Export Stimulation Loans)

Agricultural Finance

Mortgage Finance

11. Smart Debit Cards

To reduce cost, risks and inconveniences of carrying and handling cash, many banks e.g. Ecobank provide Debit Cards to Staff and Students and other Customers for payment purposes. The benefits of these electronic Cards are as follows: they are Secure, Convenient, Reliable, Track-able and users friendly.

12. Import Finance Facility (I.F.F)

This is a specialized product meant only for import financing requiring Local Currency only. Customers who are involved in importation business can access this facility on the terms dictated by the bank.

13. Import Trade Facility (I. T. F)

Banks are in the business of making funds available to importers requiring Foreign Exchange such as dollar, Sterling pounds, French franc and Japanese yen. This involves opening of letters of Credit and bidding for forex for customers at the CBN foreign Exchange market.
(17 ½ Marks)

ANSWER TO QUESTION 2

1. Factors involved in marketing banking services effectively are:

a. Personnel

The current trend in banks is to assume that all bank staff particularly in the branch undertake one form of marketing or the other for the bank. They are expected to carry out this function through the manner in which they interact with customers and the public at large. Neat, smart and corporate dressing is a must for all the banks staff and that is why they are paid dressing allowances. They also have a duty to be very polite while interacting with customers. They must always adhere to the idiom, which says that "customers are always right". Apart from this general assumption many banks now have effective marketing departments whose main functions are the marketing of the bank's products and services. Marketing officers, most of whom are professionally trained marketers are employed to man this department of the bank

Results have shown however that the marketing officers are often not adequately equipped for the job. It is expected that a marketing officer should impact sound knowledge about the bank's products or services, but often times this has not been so, especially when fresh recruits go out to canvass for deposits. At times, they meet with more knowledgeable prospective customers on financial matters. The lesson here is that all marketing staff going out to canvass for deposits or to introduce services must be well grounded in order to make the necessary impact.

b. Product and Services

In today's highly competitive banking industry, the number and the variety of products which a bank provides have a strong impact on its image and business, as it affords the would be customer a wider range to choose from. Products are generally classified into primary and secondary products.

c. Primary Products

These are the basic banking products in the industry which every bank must provide. They are for example, savings account, current account, granting of loans and advances, honouring of customers cheques, bankers acceptances, trust deed receipt, commercial papers, FOREX transactions etc. All these are essential services and must be provided by a bank.

d. Secondary Products

These are extra products that add to the bank's differential advantages over its competitors. They are products that must be designed and packaged in such a way that customers would easily subscribe to them. Nothing is harder to sell than a bad product. Therefore, before developing a new product, marketing officers should go to the market to identify what the market wants, and tailor the new products along such lines.

e. Publicity

It is the function of public relations to create public awareness, so that marketing is done with relative ease. For marketing to take place the marketing officer has to reach the people, but the ground must first be prepared for him by the public relations staff that creates awareness of the bank and its products in the minds of the people. Public relations therefore, is in itself an act of marketing when properly put together, the results of effective marketing and public relations are the generation of deposits, increased turnover, improved earnings and increased profits.

f. Branch Operations Units

The branch of a bank is its shop window. It is the avenue through which the customer gets a feel and tries the products of the bank, and therefore, it is what he sees and experiences in the branch that will inform his decision on whether or not to buy the bank's services. Against this background, marketing activities can be likened to the duties of a salesman who introduces the product to the customer who then goes to the store to make a purchase.

g. Promotion

Promotion is a major factor in marketing banking services as it brings the products to the awareness of the customers. Banks need to promote their products and services via the following;

- (i) **Advertising:** This helps to create awareness of bank's products and services, and it is done via electronic and print media, etc.
- (ii) **Sales Promotion:** this includes gifts, such as diaries, calendars, clock etc.
- (iii) **Personal Selling:** this involves staff conducting themselves properly to customers via warm and friendly attitudes.
- (iv) **Image Laundering:** Banks achieve much image laundering through sponsoring special events such as sports and cultural activities.
- (v) **Place:** This refers to goods locations where customers can easily reach the bank's branches for services with little hustles.
- (vi) **Price:** this ensures that interest rates both for lending and on savings are friendly enough to attract customers.

17 ½ Marks

ANSWER TO QUESTION 3

A. Some Unethical Problems in Banking.

- i. **Conflict of Interest-** This occurs when a banker engages in other agenda which interferes with his official and assigned responsibility. This could arise in situations such as: the banker having undue interest in a customer's request; the banker taking up other employment on part-time basis; acceptance of costly entertainments or gifts from potential borrowers or suppliers, etc.
- ii. **Abuse of Position-** This is when a professional position is used by a banker for undue advantage to enrich/improve his material well-being by: forgery of security documents, stealing from a customers' account or misappropriating clients' fund, etc.
- iii. **Violation of Confidentiality**
The reputation of a bank could be enhanced through the way the information of its customers is handled. It is not appropriate for the bank to disclose the account details of any of its customer to a third party without the consent of its customer. But it is quite unfortunate that some bank staff indulge in such act.
- iv. **Unreliable Accounting Records-** This is when financial records do not meet the necessary accounting standards; necessary details are not provided, falsified records; records not accessible when required.
- v. **Lack of Equitable Treatment-** This is a situation when friends, relations, associations and other special peer groups influence bank officials in providing preferential treatment to them when transacting banking business with them.
- vi. **Misuse of Information-** This is the manipulation, falsification or violation of the sanctity of available information for the purpose of either deriving/maximizing some

benefits or avoiding liabilities or minimizing risks.
7 ½ Marks

B. A typical marketing plan consists of the following sections:

(i) Executive Summary

This is usually the first component of a marketing plan. It contains the summary of the entire plan in about two-three pages only. The main content is the overview of the major points and recommendations of the plan as presented to the senior management of the bank by the Strategic Business Units.

It is meant for the senior management to appreciate the facts and factors that have been put together to determine the direction of the entire plan/budget.

The executive summary also guides the senior management staff in searching for the relevant information that is critical in evaluating the entire plan before approval is given for implementation.

(ii) Review Of Previous/Current Years Performance

This is the process of reviewing the major transaction executed, business successes achieved, operating problems encountered, and actual financial performance attained during the year under review. This process should touch on all aspects of the bank's operations requiring adjustment based on actual performance- such that there may be need to improve marketing efforts in the forth coming year. There may be a need to guide against income losses, or leakages in some other areas of operations to control cost. There may be need to take steps to improve on business development, or customer relationship, etc.

(iii) Situation Analysis

A typical situation analysis will include the location of the bank branch office, describing how to reach the location and the other roads which link with the location. This analysis also will touch on the major markets that provide business customers and the major items traded in the markets that provide the bank with sizeable clientele.

Business Potential that is available in the location and the market should be discussed. What is the quantum of business in the location? How much of it has the branch been able to capture? What else should be done to take a larger portion of the business available? Competition is an issue to take on while discussing situation analysis. How many other banks are within the location, in what products do the banks mainly compete – lending, foreign exchange, retailing banking or corporate banking?

The idea is to see how to sharpen the bank's competitive edge. Other issues to note in situation analysis are the **strengths** i.e. areas where the bank branch has superior performance index over all the other banks in the locational area such as on-line-real time. Does the analysis indicate any area of **weakness**?

The plan should suggest mitigating steps to remove or reduce the impact of the weakness. For example if the identified weakness is in bad debts plans should include discouraging impromptu lending – the bank should grant formal and structured facilities to customers. Other items are **Opportunities** and **Threats**.

The bank should make full use of such opportunities for business expansion to increase its earnings while it should do all it can to mitigate the threats such as internet fraud and other financial crimes. Threats are events which weaken the ability of the bank to remain in business or make profits.

(iv) Objectives and Goals

After situation analysis the next item in the marketing plan is focus, objective and goals, the bank has to decide if it should focus on expansion of credits, or retain banking, corporate banking or public sector banking. Decisions will be based on the circumstance or their location and customer profile. Typical goals and objectives are as follows.

(v) Strategy Statement

Management should formulate clear strategy in the form of statement what its goals and objectives are regarding marketing plan. A bank branch for example should decide how to optimize earnings from the balance sheet items. Typically, such strategy statement could be made as follows:

“The branch will drive earnings mainly through liabilities generation. Much of the marketing efforts will be directed to mobilizing current accounts and other cheap deposits. These deposits will account for 75 % of the deposit base of the branch while savings and fixed deposits portfolio will account for 15% and 10% of the entire deposits of the branch”. This statement is strategic and very clear.

10 marks

Total Marks: 17 ½

SECTION B

QUESTION FOUR

- (a) The factors can be discuss under Cost, Convenience, Confidence and Competition
 - (i) Competition from non-bank financial institutions
 - (ii) Level of income in the community i.e if income is low, deposit base would be low.
 - (iii) Population: when working population is high the deposit base will be high and vice versa.
 - (iv) Branch location; the branch bank should be located in an area that will contribute to the success of the bank.
 - (v) Comprehensiveness in the vehicles i.e the total package of service rendered from savings accounts to foreign exchange.
 - (vi) Quality of services i.e the attitude of the staff.
 - (vii) Customers convenience
 - (viii) Rate of interest
 - (ix) Advertisement – when the bank is not getting enough publicity.
 - (x) Confidence in the bank

- (b) The following are the factors that influence the customers towards the branch of a bank
- (i) Quick delivery of a bank services
 - (ii) Referrals from friends and relations.
 - (iii) The goods image the bank has built over the years.
 - (iv) When there is good customers and employee relationship.
 - (v) The sales promotional campaign/activities
 - (vi) If it is the only bank in that area.
 - (vii) Nearness to one's place of work, business or income.
 - (viii) Good planning space.
 - (ix) Where traffic is less congested, it is easy to reach such branch.
 - (x) Opening of account formalities is less stringent.

QUESTION FIVE

A. The following are some of the identified differences

- i. Financial services marketing is more tightly control by Law than consumer goods marketing e.g. CBN controls e.t.c
- ii. Financial services marketing is likely to be sensitive to price than consumer goods e.g detergent
- iii. In the financial services sector, marketing is involved not only in the provision of services to consumers, but in the procurement of the raw materials on which most of the services are based e.g. the banking industry needs to persuade depositors to deposit their funds with them; the raw material is the depositor and at the same time customer- this makes marketing of financial services more complex than consumer goods marketing.
- iv. Marketing of financial services involves intangibles activities, benefits or satisfaction offered for sale and which cannot be seen or felt before consumers buy them.
- v. Financial services marketing require more of personal selling contact than marketing of consumer goods.
- vi. Channel of distribution and distribution arrangement differ as between the two product types.
- vii. Market segmentation analysis and product positioning are more critical to financial services marketing than to consumer goods marketing.
- viii. The markets for financial services face a much more complex marketing communication problem compared with consumer goods market and call for a correspondingly complex promotional mix.
- ix. Another difference between marketing consumer goods and financial services lies in the area of fiduciary responsibility and involvement in national economic policy.

B. The marketing environment affects an organization's acquisition of inputs and generation of outputs. The marketing environment which consists of the internal (micro) and external (macro) environments of marketing; are discussed below:

Internal Environment: This consist of the company i.e. other units within the company itself viz Corporate philosophy, profitability, top management (style of management), Structure of the banking organization – (Centralization, decentralization), equipment, funds (finance), accounting, research, facilities etc. Others are Suppliers and creditors, Marketing intermediaries, Customers, Competition in the public: financial public, media, public etc. The (4) P's of product, price, promotion and place (distribution). Aigbireremolen (2004) posited that there are seven micro

environmental variables within the immediate control of the bank. They are: (i.) Strategy (ii.) Structure (iii) System (iv) Skill (v) Staffing (vi) Style (vii.) Shared Value. The internal variables are the controllable variables, which can be combined in varying proportions by the marketing manager to achieve stated objectives.

The external variables in the Bank Marketing environment are pending legislation, Nature of Competition, Business practices, Operations technology, Macro variables (GDP, price index, disposable income), Cultural factors (tradition, value systems, knowledge, belief, art, morality laws, social, psychological etc.). This can be discussed under the following headings below:

External Environment: This consist of socio/ cultural; environment, technological environment, political environment, economic environment, legal environment and demographic environment. The variables here are termed as controllable variables; they are external to the firm, the manager has to take note of them and adjust his plans accordingly to cope with them.

QUESTION SIX

(a) Bank charges are influence by internal and external factors.

External Factors

1. Competitive nature
2. Economic climate
3. Customers reaction
4. Government action

Internal Factors

1. Financial factors
2. Marketing mix
3. Objectives

The internal and external factors to consider before setting price or that will determine price of bank service include:

- i. Cost of providing the services.
- ii. Prices of other banks in the industry.
- iii. Government legislation, such as pegging the interest rate, or setting the range of interest for banks to comply.
- iv. Economic situation and level of patronage of the services. Price is high when the economy is booming and demand is high and vice versa
- v. Uniqueness of the product genuine - innovation services can command high prices as competition is absent.
- vi. Other factors are company's objective and desired public image.
- vii. Buyers psychology and behavior.
- viii. Demand for product/services.

(b). Firms respond to price changes during inflationary trends or excess demand in the following ways:

- i. Reducing the amount of product instead of lowering prices.
- ii. By substituting less expensive materials and ingredients in the production process.
- iii. By reducing or removing product features in order to reduce cost.
- iv. By reducing or removing post-sales or production services e.g. installation, free delivery of items purchased etc.

- v. By using less expensive packaging materials to reduce packaging cost.
- vi. By creating new economy brands.
- vii. By reducing the number of sizes and models offered