CREDIT MARKETING IN RURAL KERALA - PRODUCT MIX AND CONSUMER BEHAVIOUR ANALYSIS

By

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THESIS

Submitted in partial fulfilment of the requirement for the degree of

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DECLARATION

I hereby declare that this thesis entitled **"CREDIT MARKETING IN RURAL KERALA – PRODUCT MIX AND CONSUMER BEHAVIOUR ANALYSIS"** is a bonafide record of research work done by me during the course of research and that this thesis has not previously formed the basis for the award to me of any degree, diploma, associateship, fellowship or any other similar title, of any other University or Society.

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CERTIFICATE

Certified that this thesis, entitled **"CREDIT MARKETING IN RURAL KERALA – PRODUCT MIX AND CONSUMER BEHAVIOUR ANALYSIS"** is a record of research work done independently by **Sri. George Thomas,** under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to him.

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GEORGE THOMAS

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INTRODUCTION

INTRODUCTION

Mahatma Gandhi is `Mahatma' because he led the nation to independence. To this researcher, he is again `Mahatma' because he said the following.

> "A customer is the most important visitor on our premises.
>
> He is not dependent on us.
>
> We are dependent on him.
>
> He is not an interruption on our work.
>
> He is the purpose of it.
>
> He is not an outsider on our business.
>
> He is a part of it.
>
> We are not doing him a favour by serving him.
>
> He is doing us a favour by giving us an opportunity to do so."

This is a perfect marketing vision. Even before the Western Management Gurus could concretise the modern marketing concept as a customer orientation of business, Gandhiji made this visionary statement. If a business organization viewed its customers the way Gandhi said, one can say, without any second thought, that the organization is following the modern marketing concept. How far did our business organizations embrace this concept of marketing?

An ordinary villager, say *Kuchela,* hesitantly entered into a building where a few well dressed, seriously looking and never smiling people were found sitting. One of them, in a specially designed cabin, before a heap of files and vouchers on his fairly spacious table. Most others in a row, exposing hardly their heads above the counter (long table), turning the pages of unmanageably big records and scribbling alternatively in the records as well as in the vouchers with them. Kuchela took a step back; compelled by his necessities, he regained confidence and dared to come close to a counter, waited for the counter staff's merciful look. Unfortunately that did not happen because the staff was too busy with his work. Kuchela turned his face to a man who was found standing and moving around, taking things from one counter to the other or to the cabin and back. Kuchela tried to draw his attention by broken words or a few trembling gestures. Thank God, finally he could say just `loan' to the peon whose attention he tried to attract. The peon, in turn, with his manager-like majestic verbal silence, pointed to a counter. Kuchela immediately rushed to that counter and patiently remained before the counter clerk for an enquiring message from him. Yah, the clerk raised his head ultimately. Kuchela bungled to express his desire to avail of a loan. A spate of questions, piercing look, quick and rude turning of the pages of documents produced and so many 'yes and but' arguments, then followed. Finally, the counter clerk advised him to meet the man sitting in the cabin. He readily obliged. After getting the nod from the man inside, he entered in the cabin bear footed and hands folded as a mark of respect and fear. Though asked to sit, he remained standing until the manager said *yes* or *no* after a half-an-hour long ordeal.

This must be a caricature of a bank-customer relationship in an Indian bank until the early 90's. Seen this, one would be tempted to say that Gandhiji was too early to suggest so much about a customer.

Here one can draw a striking difference between theory and practice in marketing. What is theoretically ideal need not be so in practice. In other words, a practitioner appreciates a concept as ideal only when his business interest and environmental forces draw him to that. That is why marketing is said to be an evolutionary process linked to the level of demand and nature of competition in the industry.

Banking industry offers a typical example. Kotler (1994) traced out five stages in the evaluation of marketing thought from the developed western banking world. The `bank marketing' concept, probably, is on the nascent stage of its evaluation in the Indian banking industry (Bapat, 1981; Prasad, 1989; Koparkar, 1991; Lekshmi, 1991; Rao 1996 and Govindaraj, 1996).

The first stage of evaluation, in this case, was focused more on to `deposit marketing' because in the past, the Indian banks found it difficult to mobilize deposits and needed resources but they hardly faced any problem in selling credit. Till recently, the scenario did not change any much. This is evident from the literature on Indian bank marketing contributed by management writers. Their major thrust was on marketing of deposit services as also on other non-banking services. Least, they took credit marketing as an issue worth a discussion (Parthasarathi, 1993; Ramesha and Thomas, 1994 and Ramakrishna, 1995).

After all, the literature ought to have some correspondence to what the industry demands. To the industry `credit marketing' was a `non-issue' for there was always sufficient demand for credit, if not excess of it. However, now the Indian banking sector is on the threshold of a revolutionary change. The change instigating developments are gaining ground in the form of `liberalization', `denationalization', `opening up of financial market', `disintermediation of banks' etc. Needless to say, competition in the banking sector would intensify in the days ahead. In such a competitive environment, all round marketing efforts would be the thrust and focus of any bank's business strategy (Sarat, 1990; Joshi, 1991, 1993 and 1996 and Rao, 1996).

In the matter of bank marketing evaluation, compared with other Indian states, Kerala is a step ahead, it seems. Here, even `credit marketing' has become an issue of bankers' growing concern. Till the late 80's, if a marketing theorist happened to speak about `credit marketing' as a necessary concept, there would have been hardly any takers to that. Some would have even criticized him for such an unwanted jargonization like `credit marketing'. Opposed to this, off late, there is a general appreciation of this concept among Kerala banks thanks to a peculiar development in the early 90's.

During the 90's, the growth of credit disbursed was much less than proportionate to the growth of deposits mobilized in this state (RBI, 1994). This disproportionality came to limelight when the Credit-Deposit Ratio (CDR) of the state started to fall continuously (Govt. of Kerala, 1991, 1992, 1993 and 1994). This generated a whole lot of hue and cry from the political circle and development thinkers. They squarely blamed the bankers for draining away the state's resources by deploying the collected deposits elsewhere in the country. Bankers, on the other side, turned defensive with the argument of `poor credit absorption capacity' of Kerala economy.

Weighing the merits of those arguments is not very much a purpose of this research. However, this hints to a fundamental difference between how a development thinker, and a business management theorist look at a business like banking. Since the present research takes up the issue of credit marketing from a business management angle a little elaboration of this difference makes sense. Such an elaboration, it is hoped, would enable a better understanding of the `modern marketing concept', that, in turn, would allow a synthesis of these differing perceptions. After that we would come back to the evolutionary compulsions and economic and business rationales of why Kerala banks should actively pursue the modern marketing concept in their fund deployment efforts.

Two contrasting approaches on credit

For development thinkers `credit is a lever of development' (Babu, 1997), or it is a catalyst in the process of achieving economic development. Hence they look at banks as agents of economic change or as organizations entrusted with the task of fostering economic growth (Dhawan and Kahlon, 1978; RBI, 1981; Gadgil, 1986; Desai *et al.*, 1988; Dandekar, 1993 and Desai, 1994). It then follows that banks are under moral obligation to extend their benevolence by lending more and more credit to the people. Consequently, borrowers are considered as `beneficiaries' who receive the `service' (here the `service' is almost a euphemism to refer `help') of banks.

Against this, business management theorists view credit as a product or product line that could be marketed for realizing the organizational objectives by satisfying the financial need of the consumers. Hence, to them, bank is a business organization and borrower is a consumer and their relationship is one taking shape from a typical business contract (donor-beneficiary concept has no room here). However, a sound management theorist would always appreciate that without satisfying the consumer no organization can achieve its objectives. It means that banks, for business reasons, need to satisfy their customers, both depositors and borrowers alike.

However, this theoretically held contention of consumer satisfaction assuming paramount importance is often forgot or conveniently left out by practicing managers to be appreciated. In practice, most of the business organizations including banks suffer from the limitation of what Levitt (1971) calls a `marketing myopia'. They define their business in terms of the products they are dealing with than in terms of the consumers' needs they are addressing to. In short, most these organizations are having a `selling' orientation and not a `marketing orientation' (Kotler, 1994). Marketing concept, according to

Kotler (1994) "holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors". Levitt (1971) contrasts between selling and marketing concepts as "selling focuses on the needs of the seller; marketing on the needs of the buyer" as a means to realize the marketer's objectives.

Thus, going by the modern marketing concept, lending more and more credit is a necessary business function (rather than a development function) of any bank. Banks are duty bound to do this for protecting their own interest (no escaping of it, what so ever be the credit absorption capacity of the economy). In other words, satisfying the customers defined in the target market is the only way to the business success of any bank. Here one can see a synthesis between the two differing perceptions referred earlier. The ultimate result or aim of credit business according to both the approaches is to satisfy the customers/beneficiaries. Nevertheless, why credit business is done is a point of difference between those approaches. To the business management theorists, it is done because it is a `necessary business function' to satisfy the banks' own goals. To the development thinkers, it is done because it is a `development function' to satisfy the economy's goals. Since the present research orients itself to the business management approach, identification of a target market and lending of credit in that market need be taken up by banks if and only if it is justified by sound economic and business rationale and not because of a moral duty as a `development agent'.

Having made the approach of the study clear, the earlier discussion on the bank marketing evolution in the state is continued here.

Emergence of credit marketing problem in Kerala

As was stated earlier, it was a development of the early 90's. The problem was common to both co-operative and commercial banks in the state. Among Indian states, the state of Kerala is unique in co-operative banking development (RBI, 1989). The co-operative banks in the state have an unparallel position as regards to self-reliance of resources through deposit mobilization. Nonetheless, this higher growth of deposit is becoming a real burden to them. The working capital to Loans Outstanding Ratio together for all Primary Agricultural Credit Societies (PACS) in Kerala has been showing a declining trend, moving from bad to worse over the years. It stood at a low of 43.75 per cent on 31st March 1993 (calculated from Handbook on Co-operative Movement in Kerala - 1992-93, Govt. of Kerala, 1993). It means that PACS had an idle fund to the magnitude of more than 50 per cent of the total funds, marketable but not marketed. In other words, they found it difficult to lend out the hard-earned resources mobilized through their effective `deposit marketing'. Hence it is clear that considerable marketing effort was put in the deposit mobilization front without having a corresponding effort in the `credit marketing' front. This situation is vulnerable enough to make them uneconomic business entities in not so distant a future.

A similar trend is observed in case of commercial banks as well. Their Credit Deposit Ratio for the state continuously declined from 64.77 per cent in 1988 to 51.73 per cent in 1992 and to a deplorable 41.73 per cent in September 1994 (Govt. of Kerala, 1993, 1994). It means that commercial banks could not market credit in Kerala up to even 50 per cent of the deposits they have mobilized from the state. Hence it is discernible that commercial banks in Kerala are also facing a serious credit marketing problem. (This generalization is exclusive to Kerala market and therefore it does not suffer much from the fact that commercial banks in Kerala have access to markets outside the state through their branch network).

Reasons behind the problem

Why did such a problem arise in Kerala banking scenario. Following the hue and cry over the issue of low and falling Credit Deposit Ratio of the state, RBI appointed a Task Force constituting of representatives of banking industry and the state government to go into the issue. The report of the task force identified two sets of reasons, reasons from the deposit side and reasons from the credit side.

The unprecedented shot up in NRI deposits during this period enabled the banks to amass huge deposit resources. Also, the deposit mobilization campaigns organized by banks realized more resources. At a point of time a branch manager's ability was assessed based on the extent to which he could collect deposits. Besides, banks started the practice of assigning individual target to their staff on deposit mobilization. The cumulate effect of all this together made the Kerala banking sector resource rich.

However, a similar marketing effort was not made in credit disbursement. There was no practice of assigning individual targets in this case. It was taken for granted that there would be enough demand for credit at every point of time. Later it was proved to be a mere overconfidence because the credit absorption capacity of Kerala was very low and was on the decline (Govt. of Kerala, 1993). The stagnation, if not recession, in the state's agricultural and industrial sectors lend credence to this argument. What naturally follows is a cut on the demand for investment credit. Banks' credit products during those days were mainly intended to meet the investment demand of the people.

Therefore, credit off take from banks did not show any correspondence to the increase in the deposit mobilization. Hence, the problem of credit marketing among Kerala banks was the result of an increased focus on deposit marketing at the one side and an over dependence on production credit products, that too when the primary and secondary sectors were stagnant, on the other side.

Likely impact of the problem

In this study, the impact of credit marketing problem emerged in the Kerala banking scenario is looked at from business management angle as the approach of the study was made clear earlier. There is no denial that the problem poses some developmental threats to the economy of the state. Such developmental problems apart, banks as business organizations are going to be affected by this.

It was already seen that co-operative banks in the state would turn uneconomic business entities if they fail to market credit to the extent of collected deposits. Empirical evidences are there to support this argument. The number of loss making societies (PACS) increased from 773 in June 1989 to 874 in June 1996. In both the years the total number of societies was 1580 (Govt. of Kerala, 1996 and 1997). It would be hard to revert this trend without intensifying credit-marketing efforts within the state, as their reach is limited to the boundaries of the state. Hence co-operatives are the direct (clear) victims of this problem.

The impact of the problem is not so direct or apparent in case of commercial banks thanks to their branch-banking network. When the problem of excess fund arouse in their branches in Kerala they remained unmoved for they could deploy such resources in `outside-the state' markets through their branch network. This created an impression among the fund managers of the banks that they were on a sound business strategy. Though the strategy may seem sound and innocuous in the short-run, given the strength and weakness of these banks, it may run counter-productive and self-defeating in the long run. When these banks are deploying resources in outside the state market, they are inviting unseen dangers in the years to come. The dangers can be in a couple of forms.

First of all, these banks would loose their ability to create money. Bankers' ability to create money (credit creation by banks) is a banking concept which suggests that when a bank lend some money, a portion of that comes back to one or other bank branch in the form of deposits. This again would take the shape of another loan and again, a portion would come back as deposits, say "every loan creates a deposit" (Shekar, 1985). Since most of the branches of Kerala banks are clustered in the state (around 85 per cent of the total branches – as per the annual reports of these banks in 1988), chances of credit deployed elsewhere in the country coming back to these banks is remote. Instead, banks in other regions (having higher branch net work in that area) would reap the benefit of such deployments and they would be better placed to further create money by lending it in the same area itself. Hence, money once deployed elsewhere may not come to Kerala banks and in the long run they would find their deposit base shrinking. This is likely to become a real threat especially because there are signs of 'Gulf boom' ending.

A similar danger is also there in store. When the credit takes the shape of investment, it is contributing to production. The production leads to income and the income to savings. Can the Kerala banks enjoy the benefit of such saving without having a sound branch network at the production centers? When the Keynecian multiplier effect of an investment (in simple terms one investment leads to a chain of other investments) is taken into account, the gravity of the problem is still more. Here the dangers are three. First, the Kerala banks would not be in a position to mobilize the additional saving created. Second, additional credit demand emanating from the `multiplier' effect may also go for other banks having good net-network in such production centers.

And the third, majority of branches of Kerala banks (those operating within the state) would continue to face shortage of demand for credit.

Another danger is from the cost angle. Because of the Market Development strategy, the cost of operation and maintenance of Kerala banks may go up. They are in a way, maintaining some branches (those operating within the state) for deposit mobilization alone and some others (those operating in outside the state) for credit delivery alone. Earlier, these two functions were together were done by every branch and in that case the operational and maintenance cost would be relatively lower. That position is reverted in favour of a high cost proposition. Such escalation in the cost, in due course, may compel these banks to either reduce the reward on deposits or increase the cost of credit. In both the instances the banks are going to suffer on their competitive strength. Thus, gradually, they would find themselves withdrawing from `outside the state' market for want of competitive strength.

Strategic alternatives to address the problem

For a simple interpretation, Kotler and Armstrong (1994) classified the marketing strategies into four. The first one is market penetration strategy. It means that the marketer should penetrate more into the existing market with the existing products. Aggressive promotion and other marketing programmes are to be put in this case. The second one is product development strategy, which aims at identifying new needs in the existing market and addressing such needs with new products developed for the purpose. Hence the strategy focuses more on product mix elements of a marketing mix. The third is market development strategy, which suggests that new markets are to be entered into with the existing set of products. Redefining target market and catering to the newly defined market form part of the marketing effort in this case. The fourth strategy is diversification, which implies making inroads into new markets with a new set of products. Marketing task here is to identify new target markets, define the needs of such markets and develop products appropriate to such needs.

	Existing product	New product
Existing market	Market Penetration strategy	Product Development strategy
New market	Market Development strategy	Diversification strategy

Kerala banks can adopt any one or a combination of these strategies to address their credit marketing problem. Theoretically all the strategies are good. However, the appropriateness of a strategy or a combination there on depends more on the strengths and weaknesses (as also on opportunities and threats) of banks concerned in a given environment than on theoretical premises.

In the given environment, co-operative banks are legally handicapped to access `outside the state' market as their area of operation (jurisdiction) is restricted to the state boundaries. Because of this single reason alone, one can filter it out that a strategy combination of penetration and product development is the only option relevant to co-operatives.

No much different is the case of commercial banks as well. Though they have legal freedom and limited network to access `outside the state' markets, looked at from a long-term perspective, sound economic or business rationales do not support such a strategy of market development or diversification. Adopting such strategies invites dangers like cut on their credit creation ability, inability to tap additional savings generated from the investment credit deployed elsewhere and likely escalation in the cost of operation and maintenance of branches (see the earlier discussion under the sub-heading `Likely Impact of the Problem'). Hence, for commercial banks in the state also, the better option is a combination of penetration and product development strategies.

Nonsuitability of market development and diversification strategies is contented here only when a market is defined in a very restricted sense as a certain geographical area. In this case new market means `outside the state' markets and existing market means `within the state' market. Practitioners often understand and use the concept of market in this restricted sense. The researcher is fully aware that a market could be defined in many other terms. If any such definition is used, there is no contention that the said strategies are not suited to Kerala banks. The purpose here was to refer about the appropriateness of Kerala banks accessing `outside the state' market as a means to solve the problem of excess fund with them.

Among the two strategies, namely penetration and product development, cleared out as more relevant to Kerala banks in the given context, there is a need for a focus more on to the latter, it seems. It is customary that every bank, if confronted with a problem of excess fund, would try to intensify their marketing effort with the existing products in the existing market say a penetration strategy. Kerala banks might also have done this. However, the strategy could not solve the problem as such because the problem of excess fund still persists.

If the strategy of penetration did not reward the banks much, it might be because of the reason that the credit needs of the people have changed. If credit needs have changed, suitable product modification or introductions of altogether new products are required. Put it in another set of words, a thrust on a product development strategy is the probable panacea, if at all there is any panacea, to solve this problem.

There are some more reasons to believe that the credit needs of people in Kerala might have changed. It was already stated that the agricultural and industrial sectors of the state's economy was on a low key. Nevertheless, there was buoyancy in the tertiary sector (Govt. of Kerala, 1992, 93, 94, 95, 96, 97, 98 and 99). This augurs a possible change in the credit needs of the people, as there appears some shift of emphasis from primary and secondary sectors to the third sector. Further more, it has become a cliché even among laymen that Kerala is fast reshaped into a `consumer state' from a `producer state'. A shift in the needs and demand pattern of credit would be a necessary resultant of this. Credit marketers' ability to account these changes and adapt their product mix accordingly would determine their competitive strength. The ever-strengthening informal and/or non-institutional credit marketers in Kerala with their `untied loan' (loans for which the purpose is not specified and the loanee is free to use the amount for any purpose of his choice) sufficiently justify the above contention. Hence banks in Kerala have to operate in a changed market environment, positioning their products to suit the changed needs of the credit consumers to be effective players in the market. All this demands a fresh assessment of the credit needs and an enquiry into how far such needs have found a reflection in the product mix offered by banks.

Subscribing to the emphasis of this study on product development strategy, efforts are already on from the part of bankers to alter their product mix, though at a minimal level. Some such recent attempts are worth a mention.

Till recently, no bank or other financial institutions offered credit for purchase of land. A couple of years back, Kerala State Financial Enterprise Ltd., a fully owned government financing company, announced a loan scheme for this purpose. Bankers followed suit. Similarly there was no scheme with banks to avail of credit for the purchase of second hand commercial vehicles. Marvadies and informal moneylenders made a booming business out of it. Off late some banks have entered into this once overlooked niche. Again, people needed credit simultaneously for many purposes, for production and/or consumption. Realizing this, non-institutional agencies supplied `untied loans' for a long time since. They worried only about the repayment capacity of the potential borrower and least about the purpose of the borrowal. Though late, some banks dared to copy it down as a means of matching their product with any unexpressed needs of the client. Besides, `local level planning', an innovative planning exercise promoted by the state government, has brought about a number of small and medium projects. The idea of developing appropriate loan schemes to finance such projects did not go down well with the banks even now. However, out of hint sight, some banks have started to make retrospection and to look at them as opportunities to develop and market new credit products. (The examples and cases quoted here are traced from the records of banks and institutions concerned as also from the discussions with its executives).

The foregoing discussion suggests that banks in Kerala have to think of a strategic shift in their marketing emphasis to product mix modification and development. This calls for a fresh assessment of credit needs. However, this alone would not significantly enable a bank to develop an appropriate marketing mix and marketing strategy. That depends also on the knowledge of consumer behaviour in the relevant market. Consumer behaviour in this context refers to institutional choice behaviour, credit use behaviour and repayment behaviour.

When there are different competitive players in the market, without knowing the criteria with which consumers select an institution to meet their credit needs, no bank can arrive at an appropriate marketing strategy. Similarly, consumers' credit use pattern would offer much insight to the bankers in framing their strategy. To top it all, knowledge about repayment behaviour alone would equip the banks to judiciously screen potential borrowers into transactionable and otherwise. Since sale of credit does not end (it only begins) with its delivery, repayment behaviour, probably, is the single most important factor in translating marketing strategies into actionable programmes. It is against this theoretical and empirical background that the present study was proposed in 1995 with the following specific objectives.

Objectives

The objectives of the study are:

1. To examine the rural credit marketing by different agencies with special reference to product mix vis-à-vis rural credit needs.
2. To study the consumer behaviour with respect to:
   (a) Institutional choice for credit
   (b) Credit use pattern and
   (c) Repayment of credit, and
3. To identify the impediments in new product development and product mix modifications.

Scope

Bank marketing, particularly credit marketing is yet to develop in the country to any noticeable level. Though credit was an issue of concern to development thinkers long since, it remained largely a non-issue to credit marketers. Differing from the conventional approach of development thinkers, the study takes up the issue of credit marketing from the angle of business management. This is the primary scope of the study.

Further, the study has scope to make a fresh assessment of rural credit needs in the state. It then proceeds on to matching these needs with the existing product mixes offered by banks. If there were mismatches, the option before the banks would be to go for product mix modification and new product development. The study also has scope for identifying the impediments in this option.

Also, the study identifies the criteria with which credit consumers make their institutional choice. Besides covering the credit use pattern, it assesses the repayment behaviour as well of the consumers. All this includes the scope of the study.

Practical utility

Due to a variety of factors as discussed earlier, banks in Kerala have to operate in a changed market environment. There are reasons to believe that credit needs of the people have undergone a change. Only when such changes are known, banks can modify their products suitably. It is to this effect that the study endeavored to make a fresh assessment of rural credit needs, hence is of high practical utility to the bankers, it is expected. Also, the study would throw much light on various dimensions of the behaviour of credit consumers in the state, which would help the banks in framing their marketing strategies and programmes, it is believed. Similarly, when the impediments in new product development and product mix modification are made known, bankers can think of removing them.

The study is especially important to co-operatives because they are legally constrained to operate in `outside the state' markets. In the given environment, to be successful in `within the state' market a product development strategy is to be adopted by them. The present study has many contents to help it..

The business management orientation of the study, itself, makes it fall in a category of research literature on credit that is very thin. Hence the study has some academic uniqueness. That apart, altogether, the results of the study are expected to provide useful insights to institutional bankers in their strategy formulation efforts.

Limitations

Marketing is said to be a subject of visionaries. We have already referred about visionaries like Mahadma Gandhi and Theodore Levitt who could visualize normatively what ought to be the future of marketing. For want of such visualization skills, this researcher has tried to draw conclusions only positively and not normatively. This, probably, is the first important limitation of the present study.

Then, it is appreciated that the study had a higher dependence on primary data. Establishing the reliability and validity of such data by matching and verifying them with secondary data was a near impossibility on most occasions. However, considerable care and attention was taken in pre-testing and improving the primary data collection instruments. Also included were questions in the survey schedules to cross match the responses on them with the responses on similar or related questions. However, the researcher would like to admit possibilities of some or all of the generally appreciated limitations of primary data of having crept into this work as well.

Yet another limitation of the study is that banking respondents considered for the study were only few in numbers. This prevented the researcher from analysing the data generated from them with any sophisticated statistical or other research tools. Only a simple interpretation and reporting of such information was attempted in this work. This, also, may be considered as a limitation of the present study.

The researcher confronted a similar problem on another occasion as well. Though the study had a sample size of 300 individual respondents, when divided into different customer categories for purposes of segregated analysis, the number of respondents in certain customer categories fell short of statistical significance. Hence, the inferences drawn from such cases may not be tenable for generalization.

REVIEW OF LITERATURE

REVIEW OF LITERATURE

Differing from the conventional pattern of a chronological listing of the past studies, here an attempt is made to critically analyze the literature so as to arrive at ideas relevant to the present one. The methodology of this analysis is to discuss the points of consensus among different studies and to project the differences between them whenever such differences are so pertinent. Since bank marketing, as such, is a subject of recent origin, only those studies took place in the last two decades are reviewed here except when the other studies are either too important to be left out or need be reviewed as the situation so demands. Also, those studies on the exact topic of credit marketing are given a special emphasis by first presenting a gist of each study and then analyzing them using the said methodology.

The literature on bank marketing is thin in the country because it is of recent origin (Lakshmi, 1991). It is still thinner when it comes to credit marketing. It may be due to the reason that till recently, "bankers were in the `sellers' market' with ready customers and large waiting list" especially in the context of credit marketing (Bapat, 1981; Sengupta, 1991; Parthasarathi, 1993 and Ramakrishna, 1995). However, development thinkers had made a number of studies on credit, viewing credit as a tool or lever of development (Babu, 1997). Though such studies are important and useful, in this part of the report the focus is more on studies that viewed credit as a product to be marketed than as a development tool. Despite that, studies from development thinkers are also reviewed and referred here whenever such studies were found offering useful information to the present one.

Bank Marketing

Bank Marketing - what does it mean? "In simple terms", it means "a co-ordinated organizational effort to reach the customer to fulfill his specific needs for getting his patronage (through utilization of people, products or services, price, promotion, branch outlets and distribution policies) by maximising customer satisfaction" (Toor, 1994).

According to Gavaghan (1990) identifying the precise needs of each market aimed at and satisfying such needs would determine the crux of bank marketing. For this, research and analysis, product management, and communication ought to work in a coherent and linear fashion.

Bhatt (1991) says that bank marketing is the aggregate of functions directed at providing various services to maximize the customer satisfaction in his/her financial needs and wants. Banks have to find out such financial needs and wants of the various existing as well as potential customers.

To Prasad (1989), "bank marketing is creation and delivery of financial services suitable to meet customer needs at a profit".

Rao (1996) contented that "bank marketing is concerned with the exchange relationship between the bank and its customer, where customer services and quality are the key linkages of such relationship".

Ramesha and Thomas (1994) viewed bank marketing as "an organizational philosophy that demands the satisfaction of customers' needs as the prerequisite for the existence and survival of the bank".

All the above definitions focused on customer satisfaction as the key element in bank marketing. Some of them further emphasized on product development and other marketing mix elements. Few of these definitions indirectly suggested the need for market segmentation. Hence drawing from all these definitions, here, bank marketing could be looked at as the aggregate of banker's activities aimed at realizing their organizational objectives by the process of defining the target market and market segments, identifying the financial needs of each segment and developing appropriate marketing mix to meet such needs in such a way that it would result in customer satisfaction to the best possible level in each segment.

Evolution and importance of Bank Marketing in India

Having defined bank marketing, it is worthwhile to briefly review the evolution and importance of bank marketing in India. Saxena (1985) and Koparkar (1991) noted that in late fifties, banks had no understanding or regard for marketing. Banks were more conservative and inward looking, concerned with their profits. This was due to the fact that banks were enjoying a monopoly in the money market. However, after nationalization of 14 major commercial banks in 1969 banks woke-up from their splendid isolation and found themselves placed in a highly competitive and rapidly changing environment as the competition became fierce day by day from non-banking resource mobilizing agents which included companies, Life Insurance Corporation, Unit Trust of India, private financial and non-financial institutions, post office and also private lending by individuals. In such a situation banks' approach towards customers and market underwent a change and focus has gradually shifted to marketing their services.

These views were fairly endorsed by Prasad (1989) also. He said that before nationalization the State Bank of India and the then existing private sector banks were enjoying a monopoly because the former enjoyed the government patronage and the latter restricted themselves to the interest of big business houses only. This resulted in banks not appreciating the concept of marketing. This situation had changed and competition had intensified in the banking sector. Hence according to him also, the seventh decade of 20^{th} century witnessed a tremendous change where marketing activity in banks was accepted as an indispensable function in modern banking business.

When the above studies referred seventies as a period of growing appreciation of bank marketing concept by banks, Bapat (1981) was not well convinced. He stated, "the word `bank marketing' might create initial resistance in the minds of conservative and over cautions bankers". He stated further that unfortunately, there had not been a unified and organized effort towards bank marketing as such in India. Even individually, much attention on regular basis had not been given to bank marketing and customer services. He further added that one of the probable reasons for this might be that all those years the banks had been in the `sellers' market' with ready customers and large waiting list. However, he also held the view that the situation was fast changing and the Indian banks were forced to operate in `buyers' market' particularly in the deposit front.

Lekshmi (1991) profiled the Indian bank marketing evolution in a more rational and balanced manner. According to her Indian banks were still in the first stage of bank marketing. Nevertheless, she argued that in the early seventies a significant activity as regards to bank marketing took place, which was customer segmentation. The segments identified were (1) commercial and institutional segments, (2) small industries and small business segments, (3) agriculture segment and (4) personal and service banking segment. However, this segmentation was the singular effort of State Bank of India in 1972, notes Saxena (1985) and hence cannot be generalized. Lekshmi (1991) added further that in the eighties the bank marketing took a new dimension that banks were becoming more customer oriented. As a consequence, customer oriented produce mix, market segmentation, advertising and promotion etc. gained prominence. Yet with evidences from an empirical study conducted on customer services, she concluded that the bank marketing had to go still a long way in India.

Rao (1996) brought out a slightly different profile of bank marketing in India. Though it amounted to a gross generalization, it gave a decade wise profile from 1950's. According to him "in 1950's bank marketing was primarily focussed on retail banking. In 1960's, with the growing emphasis on industrialization, the focus shifted to industrial banking. In 1970's with changing national priorities, social banking assumed considerable importance. In 1980's, class banking has given place to mass banking with greater attention to weaker sections and the down trodden. In the 1990's the banking industry took a turn towards liberalization, privatization and globalization exposing them to unprecedented competition, for which banks found a solution in the strategy of `Relationship Banking'. He qualified this as an important bank marketing development having customer orientation as till then the focus was on `transaction banking'.

Particularly subscribing to the development of 1990's referred above, Govindarajalu (1996) noted that among others, to the bank managements, deterioration in the quality of customer services in Indian banks was becoming a matter of serious concern.

There was hardly any study that bothered to thoroughly profile bank-marketing evaluation in India. From the studies referred above, it could be discerned that there were sporadic and piecemeal efforts to adopt the concept of bank marketing by Indian banks at various levels and different periods. Nonetheless, there is high unanimity among researchers to argue that bank marketing is in the nascent stage of its evolution in India and is yet to go a long way. This would be further clear from the comments of some other researchers as well. Varade (1985) said that systematic effort is required for bank marketing to root and develop in the country. Kuppuswamy (1986) stressed on the need for a new look at bank marketing. Rao (1985) contented that marketing services by bank branches are far short of satisfaction. Without imparting adequate training to bank personnel on bank marketing, customer satisfaction and hence their patronage cannot be achieved, said Ramamurthi (1989). Sarat (1990) and Joshi (1991, 1993 and 1996) identified growing competition as a compelling reason for banks to go the marketing way. Parthasarathi (1993) and Ramakrishna (1995) argued that the bank marketers have paid only less attention to credit marketing and is an area yet to develop. Hence, bear repeating that bank marketing is yet to make any serious headway in the country.

All the studies, reviewed above, have stressed on the importance of bank marketing as well. In addition, a host of researchers like Gulati (1985), Gupta (1985), Iyer (1987), Bhatt (1988), Gupta and Torkzadel (1988), Hebbar (1988), Kittur (1988), Satish and Muralidharan (1989), Akbar (1990), Ball (1991), Bhatt (1991), Chidambaram (1991), Jagannathan (1991), Agrwal (1992), Bhattacharyay (1992), Madhukar (1992), Nair (1992), Nair (1992b), Ray (1992), Chidambaram and Alamelu (1993); Kilam (1993), Toor (1994), Ghoshroy (1995), Toor (1995), Rao (1995b), Strieter (1997), Asthana (1998), Satish and

Deshpande (1998), The banker (1998), The banker (1998b), Sreenivasan (1993), Chittal (2000), Reddy *et al.* (2000) etc. have emphasized through their respective studies, looking the issue from different dimensions, the importance of adopting modern marketing concept by Indian banks as a means to make them vibrant business entities. Growing competition, increasing customer dissatisfaction and disenchantment with banks' services and `disintermediation of banks' by the development of capital market are the three important factors identified, in general, by these researchers as compelling reasons for the banks to adopt modern marketing concept.

Since these are points of consensus drawn from such a large number of studies conducted in different parts of the country during different time periods in the last two decades, it could be reasonably concluded that the importance of bank marketing is generally appreciated in the country and off late, banks are forced to shed away their former selling orientation in favour of a consumer orientation as they are compelled to do so by the changes in the environmental forces like competition, customer consciousness, capital market developments etc. However, most of these studies highlighted the importance of customer-orientation mainly by taking-up the issue of `deposit marketing'. Only less attention is paid to `credit marketing'. Since the focus of the present study is on the latter, reviewed below are some of the studies that had a higher focus on that area.

Credit Marketing (studies in the 1980s)

Bapat (1980) in a study on urban co-operative banks reported that many banks are facing the problem of surplus fund (Note that this situation has its parallel in the whole co-operative banking scenario of Kerala today). He pointed out that the class of small traders and small entrepreneurs associated with urban banks were only three per cent and eight per cent respectively. He suggested that those people would have to be approached by development staff to identify their needs and chalk out a programme to bring more of them into the fold of urban banking. Another potential group of customers identified by him was women as their participation came to be only 29 per cent. By molding suitable schemes for them and by taking a lead in women entrepreneurship development, the banks could market their funds more effectively, he recommended.

Godse and Bandyopadhay (1985) argued that when there was a clear job assignment in Indian banks in the deposit marketing area such a clear assignment was conspicuous by its absence in the credit-marketing front. They qualified it as an important drawback of the banking system, which was yet to understand the significance of credit marketing on equal footing with deposit marketing.

Highlighting the weakness of the credit marketing system Sonalkar and Kaveri (1985) pointed out that with regards to credit sanctions, customer dissatisfaction was related to the following aspects: (a) scheme design lacking essential adaptability or flexibility to cater to individual customer needs; (b) questions asked and data required are not always relevant and/or available and perhaps expensive to obtain; (c) all queries not raised at one time; (d) complicated documents and cumbersome procedures regarding documentation; (e) lack of counseling; and (f) malafides of staff. The report stated that all classes of borrowers had problems in furnishing information considered necessary by banks in processing loan applications. It also stated that there was considerable delay in sanctioning of loans and the time gap in credit decision depended upon: (a) availability of required data, (b) skills of bank officers in credit appraisal and taking decisions, (c) amount of credit asked for, (d) lending power of the branch managers and role of controlling officers, and (e) quality of appraisal notes.

George *et al.* (1985) studied about the costs other than interest cost incurred by borrowers in obtaining different types of loans from institutional and non-institutional agencies. The results indicated that marginal farmers were incurring Rs.14.11 as cost per Rs.100/- of crop loan borrowed from institutional agencies. Such costs were Rs.9.30 for small farmers and Rs.3.98 for medium/big farmers and the overall average cost was Rs.7.16. Similar costs on term loans were Rs.20.85 for marginal farmers, Rs.15.05 for small farmers, Rs.7.60 for medium/big farmers and the overall average cost was Rs.12.53. In contrast, for borrowers from informal sector the cost of credit was only a meager Rs.1.02 for marginal farmers and Rs.0.64 for small farmers. Components of costs revealed that opportunity cost or in other words wage lost was the major one followed by legal charges. Note that the cost worked out by them excluded bribes and such other costs incurred by borrowers for obtaining various documents though it was widely known to them and to all that such costs were substantial. Gill (1990) also expressed similar views.

Khankhoje and Godse (1985) having studied the systems and procedures followed by banks while a loan application is received, processed, sanctioned, disbursed etc. reported that there are many areas where improvement could be made and duplication of efforts could be avoided. They also pointed to the weaknesses of the system and abnormal delays in loan disbursement that occurred as a result of lack of marketing vision and approach. They favoured developing simple credit products that are capable of attracting the borrowers by reducing their pain to obtain a loan.

Mishra (1985) evaluated the IRDP projects financed by banks and found out that only about 28 per cent of them were found successful and working on commercial lines and 10 per cent of them were totally unsuccessful. He held the banks responsible for such poor project assessments that resulted in heavy overdue.

Nath (1988) contented that because of the process of disintermediation - the process that enabled the savers to invest directly in the capital market or the process that reduced the role of banks as intermediaries between savers and investors - banks had fallen in a situation of not getting worthy and profitable borrowers for their fund. This called for urgent attention on adopting modern marketing concept in credit marketing front as well. Banks were no longer in a position to be less serious on any of their business opportunities, the existing ones were to be reviewed and the new ones were be added up. According to him, a major problem affecting the profitability of banks was the high unutilized. Credit limits being maintained by corporate sector. At times it went even up to 76 per cent in the case of very large borrowers. The commitment fee, which had earlier existed for well over 20 years, was withdrawn by the adoption of Chore committee recommendations. He suggested that the banking system might examine a method of pricing the `slack' which exists between the sanctioned limits and amount utilized in order to keep this slack at the minimum, thereby freeing otherwise committed funds for gainful purposes.

Mishra (1988) offered some operational guidelines to branch managers as:

(a) Simple and clear procedures, particularly in dealing with rural and illiterate clientele,

(b) Financing need based and disbursement in time,

(c) Supervised credit to ensure proper utilization of funds,

(d) Repayment schedule commensurate to the income period from the activity, and

(e) Conversion of short-term loans to medium/long-term loans at the time of natural calamities/hazards.

He also suggested that every loan proposal should be viewed independently because two individuals and situations are hardly alike. Hence with broader guidelines, the managers should apply their marketing skills and vision while dealing with credit.

Ravi (1989) opined that informal credit agencies were posing certain challenges to the institutional agencies in marketing credit. Their flexible credit schemes were often found more attractive to the borrowers compared with the rigidly defined product mixes of institutional lenders. Also, procedural simplicities, easy access and negotiability in times of need gave them an edge over institutional agencies. Though interest was higher, other costs in obtaining a loan were comparatively negligible. His findings fairly correspond with the findings of Saonalkar and Kaveri (1985), Khankhoje and Godse (1985), George *et al.* (1985), Gill (1990) and Mishra (1988) reviewed earlier in this section.

Goiporia (1987) argued that the banking system in India had built up a vast infrastructure at a substantial cost and unless aggressive efforts are made to market their deposit and credit schemes as well as the wide range of services and facilities offered, there could be underutilization of the banking infrastructure. He held the view that much of the future banking potentials lied in the rural areas. While the rural branches accounted for 57 per cent of the total branch network, the share of rural deposits in the total deposits was only about 14 per cent, he stated. However, similar statistical information on the percentage of credit disbursed in rural area to the total credit disbursed is conspicuously absent in his study.

Bell (1990) probed into how did the attempt of Government of India to expand rural credit and displace village moneylenders through the system of rural co-operatives and nationalization of commercial banks bear fruits. A detailed comparison of three major surveys of the Indian rural credit market suggested that in various guises, the moneylenders were still a major source of loans. The study also examined the (weak) evidences on intermediation between the formal and informal sectors. A formal model of the interaction between the informal moneylenders and institutional lenders was constructed under a variety of assumptions about the exclusivity of loan contracts and the competitive structure of the informal sector. The conclusions were drawn in the form of five proposals for public policy. One of the proposals was the use the knowledge of the informal lenders in the formal sector. Through the proposal it was argued to establish a system where the institutional lending could be routed through commission agents who have better personal knowledge about borrowers and their needs, as well as a mechanism to ensure prompt repayment. This appears to be a very revolutionary proposal which is capable of solving many of the difficult problems in institutional lending like procedural delays, documentation requirements, timelines, adequacy, flexibility of the loan products to suit the customer requirements etc. However, pending detailed discussion and experimentation anything said more about this would be premature. Yet it is to be appeared that the proposal carried innovative credit marketing content.

The above reviewed studies were conducted in the 80's and it could be qualified as a period when some academic attention started to fall on credit marketing as well. Till then, even to academics, bank marketing was almost synonymous with deposit marketing. Of course, there were enormous number of studies on credit and credit delivery systems in the past also, but they, in general, took up the issue from a development angle and not from an organization specific management angle.

One can infer from the above reviewed studies that they all presented a strong case for banks to adopt modern marketing concept in their credit business also. Four important reasons could be identified from these studies for why the banks should actively pursue modern marketing concept in credit business.

The first reason is that banks have started to face the problem of excess fund (Bapat, 1980), deploying which requires thoughtful marketing efforts. The second reason is the possibility of a vast banking infrastructure built up at substantial costs falling idle and underutilized (Goiporia, 1987). To gainfully and fully utilize this infrastructure banks have to activate their marketing activities on both deposit and credit especially in market niches like rural areas. The third reason is factors affecting consumer satisfaction like procedural formalities, time consumed in disbursement of loans, costs other than interest incurred in obtaining a loan, suitability of bank loans to meet the specific individual needs, negotiability in times of emergency etc. started to ploat a negative graph (Sonalkar and Kaveri, 1985; George *et al.*, 1985; Gill, 1990; Khankhoje and Godse, 1985; Mishra, 1988 and Ravi, 1989). If allowed to continue without appropriate marketing intervention this would result in customers shying away from banks in favour of other competitive institutional and noninstitutional agencies. And the fourth reason is the process of disintermediation of banks (Nath, 1988). It culminated in banks loosing some of their hitherto very profitable and worthy customers. Consequently banks are forced to find new avenues, with their marketing skills and talents, for fund deployment.

Thus to go the credit marketing way, banks may have to make appropriate job assignment to their employees on credit also (Godse and Bandyopdhay, 1985); train the staff on credit and project assessment (Mishra, 1985) etc. Further more, most of studies have hinted on to the need for product modification and development in the credit front. In short, the above studies have well established the need for banks to turn not just deposit marketers but credit marketers as well.

Credit Marketing (studies in the 1990s)

Literature on credit marketing in the 90's, in general, projected increasing competition as the pressing reasons for the banks to be serious on their credit-marketing role. However, some of the studies attributed one or more of the earlier suggested reasons (reasons identified from the studies in 80's) as responsible for bankers' attitudinal change towards credit marketing. Many of such studies, rather than trying to establish the need for credit marketing, have concentrated on the methodologies and mechanisms by which credit marketing could be made effective. Some such studies are reviewed below.

Bhatt (1991) argued that though bank marketing got some momentum in Indian banks, bankers did not bother to understand its implications in full and credit marketing remained largely a neglected area. According to him some banks had started marketing departments, which took care of only deposit mobilization. He added that marketing was much more than advertising, promotion of the image of the bank and deposit mobilization. Marketing functions involved: (a) market research, (b) product development, (c) pricing of the services and (d) developing marketing orientation and customer consciousness among all the personnel of banks through training.

Sengupta (1991) having studied the orientation of bank branch managers towards marketing of credit reported that the branch managers were mostly having a traditional and conservative orientation towards lending. Credit marketing, though talked much about, had not digested to them at any length. Visiting customers are not often looked at as potential and needed business opportunities before them. Srinivasan (1992) and Parthasarathi (1993) also expressed similar views and focused on the need for a new approach to credit marketing.

Ramesha and Thomas (1994) in their study on PACS defined rural credit marketing as "The aggregate of functions aiming at the identification of the credit needs of the customers/members, developing suitable schemes to meet the same at reasonable costs so as to satisfy the customer/member as also to earn profit/surplus". In their attempt to develop a broad theoretical frame work for rural credit marketing, they identified rural credit marketing function as a logical process involving five steps which are: (a) define the organization's objective in taking up rural credit marketing, (b) research the market, (c) segment the market, (d) develop appropriate marketing mix suitable for each segment and (e) monitor and modify the marketing mixes so developed while they are implemented. Finally, they also proposed some new products to be added to the existing product mixes of Primary Agricultural Credit Societies, which might attract more customers to the societies.

Ravi (1994) analyzed the strengths and weaknesses as also opportunities and threats of leasing business to promote credit marketing. In the light of increasing competition, he emphasized on the bankers' compulsions to market their funds effectively and profitably. For that, leasing business - an emerging area - offered a potentially profitable opportunity, he said.

Sharma (1994), in his case study on Canara Bank, argued that the bank is much ahead of its competitors in rural bank marketing. It was pointed out that the bank was practicing `Relationship Marketing' on a one to one basis giving customers direct access to bank management. Also, the bank had attempted to simplify the procedures and had associated with Rural Service Voluntary Organizations to explain banking procedures to rural customers. It established a rural marketing team and research cell entrusted with the task of conducting surveys and analysis of data to enable farmers to get loans more easily. Moreover, it introduced a credit card for farmers namely the *KISANCARD* just like that of a *CANCARD*. Though this case study is inspiring, it hardly offered any result of these experiments of Canara Bank and it did not attempt any evaluation of the schemes quoted.

Government of Kerala (1994) pointed out that the farm sector accounted for about 60 per cent of the disbursement of agricultural credit in 1993-94, which was around 10 per cent less than that of the previous year. Similarly, disbursement in non-farm sector was 40 per cent in 1993-94 as against 31 per cent in 1992-93. Therefore it was stated that the shift from farm to non-farm financing was becoming more pronounced. It's other implications notwithstanding; it was an indication as to a change in the needs and need pattern for rural credit in Kerala. Such changes in the needs could be brought to light only through marketing research and which is an important area of credit marketing.

Toor (1995) is a strong proponent of product innovations in banks and while profiling the recent trends in product innovations, he said that each product had a life cycle which meant that product would have to be updated on an ongoing basis to keep them suitable as per customers' changing needs. He added that the process of disintermediation and increasing competition created problems for the banks to mobilize enough funds on the one hand and on the other hand, the deployment thereof had been made more difficult. Hence the banks were trying to find profitable avenues for deployment and had started to introduce new credit products. In consumer goods financing (which was a neglected area in the past) many banks had introduced new products like `Vysmobile' and `Vysbuy' of Vysya Bank, `Canmobile' of Canara Bank, `Easydrive' for car financing from Bank of America etc. such attempts were increasingly made in housing finance also. Similarly targeting specific segments, many new loan products were introduced by Indian banks like Bank of Madura offering `quick loan' to companies satisfying certain criteria, Canara Bank's `credit to exporters within 24 hours', exclusive branches for SSI financing etc. He said all these were the developments of the 90's and foreign banks had an edge over their Indian counter-parts in this area.

Ramakrishna (1995) considered 90's as a period of growing emphasis on credit marketing and he said `credit marketing' had become the new buzzword in Indian banking. Like Toor (1995) and some others, he also felt that opening up of the financial sector emergence of foreign banks, ushering in of competition, disintermediation of banks etc. were the prominent reasons for banks to look upon credit marketing seriously.

RBI (1998) suggested measures for improving the credit delivery systems as well as simplification of procedures for agricultural credit. Among others, the study recommended simplification of agreements and other covenants/documents as they were found complicated. Also, it suggested that the focus of credit appraisal should be on evaluation of income stream of the borrower and a comprehensive assessment of credit need, taking into account track record, credibility, capability, as well as technical viability of the proposal. Again, to ensure quick disposal, at least 90 per cent of the loan applications should be decided at the branch level, it recommended. Besides, the forms accompanying the main loan application, especially for investment credit, should be simplified and made more relevant for focusing on the income stream of the farmer. It also recommended a new loan product to be introduced that the farmers should be offered a liquid saving product with an appropriate return. This saving product should be inbuilt in the loan product. This is to provide the loanees a cushion during lean period because farmers have a propensity to incur expenditure of a consumption nature during cash rich periods and as a result, they are vulnerable during lean periods. Further it recommended doing away with the 'kind component' of agricultural loans (only cash component is required), insistence on `No Dues Certificate' etc. and to give the banks concerned the freedom to fix their own scale of finance. Most of its recommendations are capable of making banks efficient credit marketers.

Satish and Deshpande (1998) pointed out that the rural credit sector in the country was undergoing a process of rapid transformation in the wake of economic liberalization. This threw up many challenges before the rural financial institutions. One of the challenges was to cope with the increased competition among private sector, public sector, foreign, and local area banks. To meet the challenge he suggested the following.

(a) Realize that competition would be there to stay and it would intensify;

(b) Develop sensitivity to the demands of the market i.e. to be market driven. This would need, not only quality products but also appropriate marketing to reach the target segment;

(c) Become more customer oriented, for that improve customer service, develop products suitable to various segments; and

(d) Look out for the possibility of collaborating with competitors.

Though his recommendations were of general a nature, they are especially significant in the context of rural credit marketing.

Gupta (1999) said that the Indian banking industry had undergone substantial changes in the previous seven years. The deregulation measures initiated by the government and RBI gave the individual banks not only enough freedom to decide on their own disbursement and investment policy but also enough funds by the reduction of CRR and SLR. The experience of other countries where deregulation took place in 1980s showed that the results of competition among banks, and between banks and their non-bank counterparts was rise in price and non-price terms of credit for business loans. This, in turn, resulted in spread getting narrowed. Since the banking sector lost their monopoly as a credit dispenser, opportunities for growth through traditional forms of lending might not be expected to grow substantially in the future. Thus growth of credit had become a dilemma before banks. Despite that, it remained a fact that loans were the highest profit-earning assets of banks. Moreover, as non-fund business is generally linked to credit expansion, to earn even fee-based income, banks would have to rely more on credit business. Hence, he suggested the banks to be in the look out for new opportunities for credit dispensation. One such opportunity, according to him, was infrastructure financing. Nonetheless, the success in this area would depend heavily on the skills of the banks to assess the credit risk as also the other marketing skills.

Chakrapani (2000) highlighted the innovative marketing effort of Gurgoan Gramin Bank in identifying and catering to a new market segment with a modified product mix. As part of the bank's market research a survey was conducted and it revealed that there was immense scope for lending under personal banking schemes to the employees of reputed companies located in the area. Hence a scheme for entering into tie-up arrangement with various companies for lending to their employees was prepared with the below mentioned salient features.

(a) A tie-up agreement had to be entered into between the corporates/companies and the bank.

(b) The bank was to extend loans to employees of the corporates as recommended by the corporates.

(c) The eligibility criteria were to be decided by the bank.

(d) The quantum of loan for different purposes, repayment period and other terms were also to be decided by the bank.

(e) The corporates were to undertake to remit the installments of the loan from the salary of the employees.

Thus the bank entered into such tie-up agreements with more than 50 companies. Having evaluated the performance of the scheme, he reported that the scheme was a roaring success and credit-marketing initiative of the bank was commendable as bank continued to collect feedbacks and improved the scheme constantly.

Chittal (2000) observed that consequent on competition and disintermediation, Indian banks were on a heavy rush for retail banking as their once applauded wholesale banking ceased to be lucrative. Adding fuel to the fire, there was high growth of deposits at a time when the spread was coming down continuously. Banks were flush with funds to the tune of Rs.56,000 crore according to the RBI. This made the retail push. However, he predicted the possibilities of the currently attractive retail banking becoming less attractive as the competition intensified. The signs of such a downtrend were already seen, he noted. The whole thing might turn unpredictably different when on-line banking make its strides. Hence, he suggested that instead of rushing for one or other business continuous marketing research and consistent marketing planning should be the focus of credit marketing. He concluded that to gain any kind of foothold in the retail finance market, public sector banks would have to learn that change should not be limited to product profile and competitive pricing. Service and speed of delivery were equally important.

Kalavathy (2000) emphasized that credit risk management is the more intriguing area in credit marketing. The Indian banking industry is presently experiencing a transformation from total protection to deregulation and thus exposed to competition. Hence, there is an urgent need for the banks to align themselves with international practices and standards. They need to put in place well laid out risk management techniques. Credit risk management is a process, rather a comprehensive system. The process begins with identifying the target markets and proceeds through a series of stages to the loan repayment. Different types of risk management techniques need be employed at each stage. Then only, credit marketing would realize the desired results. Similar views were also expressed by Gupta (1999), Sharma (2000) and Narayanan (2000).

From the above reviewed studies it could be discerned that studies in the first half of the nineties, in general, complained that either credit marketing remained largely a neglected sector in Indian banks or the banks could not understand beyond the periphery what credit marketing is all about (Bhatt, 1991; Sengupta, 1991; Srinivasan, 1991; Parthasarathi, 1993 and Ramesha and Thomas, 1994). However, some studies in the second half of the 90's brought out that there is growing emphasis on credit marketing in India (Ramakrishna, 1995; Gupta, 1999; Chittal, 2000 and Chakrapani, 2000). There is near perfect unanimity among these studies that competition and bank disintermediation are the pivotal reasons for the banks to concentrate more on credit marketing in the 90's. Besides, excess fund and reducing spread on banking business are two other reasons highlighted by some of these studies (Ramesha and Thomas, 1994; Toor, 1995; Gupta, 1999; Chakrapani, 2000 and Chittal, 2000).

As was stated at the beginning of this section, most of these studies have dealt also with the methodological aspects of how credit marketing could be made effective. Some have suggested procedural simplification and product modification (Bell, 1990; Sharma, 1994 and RBI, 1998) as a means to improve credit marketing. Most others have focused on identification of new needs, new opportunities and new product development (Ramesha and Thomas, 1994; Ravi, 1994; Sharma, 1994; Toor, 1995; Satish and Deshpande, 1998; Gupta, 1999; Chakrapani, 2000 and Chittal, 2000). Other important methodological suggestions for efficient credit marketing included institutional lending to be routed through commission agents drawn from informal sector (Bell, 1990), market research (Government of Kerala, 1994; Charapani, 2000 and Chittal, 2000) and market segmentation (Ramesha and Thomas, 1994; Ravi, 1994; Gupta, 1999; and Chakrapani, 2000). Some have projected credit risk management also as an area where credit marketers should focus on (Gupta, 1999; Kalavathy, 2000; Narayanan, 2000; and Sharma, 2000).

MATERIALS AND METHODS

MATERIALS AND METHODS

This study is basically a micro level examination of credit marketing by different agencies with special reference to product mix and credit needs of the borrowers. Also looked into are the issues of consumer behaviour in the relevant market and impediments in new product development and product modifications. The strategy of the examination is to profile the consumer behaviour and credit needs of the borrowers first and then to relate them with various aspects of credit marketing. The present chapter explains how the study has been carried out.

Conceptual clarifications and Definitions used

Explained here under are the various concepts used for the study.

1) Bank Marketing

Bank marketing refers to the various marketing activities undertaken by a bank in exchanging their products, to competitively satisfy the customers defined in the target market, at a desired level of reward to the bank.

2) Target Market

Target market is that part of the whole market which the marketer has purposively aimed at to cater to.

3) Credit Marketing

Credit marketing is that part of bank marketing activities which deals with identification of the needs of credit consumers defined in the target market and proceeding on to developing appropriate products to meet such needs, pricing, placing and promoting them to competitively satisfy the credit consumers at the desired level of reward to the marketer.

4) Bank Product

Bank product is any of the various types of deposits, loans and advances or other services offered by a bank to its customers for exchange.

5) Credit Product

Credit product is any of the various types of loans and advances or any other services that could be purchased by a customer in order to meet his credit needs.

6) 'Outside the state' market

'Outside the state' market referred in this study is to mean any geographical area outside the state boundaries where the Kerala banks can market their products.

7) 'Inside the State' Market

'Inside the state' market is any of the geographical area within the state boundaries where the Kerala banks can market their products.

8) Credit Utilization Behaviour

Credit utilization behaviour refers to the consumer behavioural aspects that deal with how the credit being borrowed for a specific and expressed purpose is actually being used by the borrower.

9) Loan Diversion

Loan diversion connotes to the act of diverting full or a portion of the amount of a loan to a purpose other than the expressed one.

10) Priority Index

Priority index shows the ranking of factors considered, based on their degree of importance. By priority we mean the aggregate of the extent to which the respondents attach importance to each factor considered for ranking.

11) Agreement Index

Agreement index is a measure of the degree of agreement the respondents have at the aggregate level (and not at individual levels) to a statement given.

Study period

The study covered a period of 10 years from 1990 divided into two halves namely the period between 1990-1995 and the period between 1995-2000.

Sampling procedure

The study area is limited to the state of Kerala. A multi-stage random sampling technique was used to select the households as individual respondents and the banks they are transacting with as the banking respondents. The technique was employed as detailed below. From the 14 districts in the state of Kerala, at the first stage three districts were selected at random. The districts so selected were Ernakulam, Palghat and Malappuram. From the selected districts one panchayat each was selected again at random at the second stage. The panchayats so obtained were Kalady panchayat from Ernakulam district, Vadakkancheri panchayat from Palghat district and Alankode panchayat from Malappuram district. At the third stage, from the selected panchayats 100 households each were selected once again at random. Thus the total size of the sample consisting of individual households amounted to 300. All the commercial banks and primary co-operative banks in the area with which the respondents transacted with constituted the banking respondents of the study. Thus the branches of 9 commercial banks, one RRB branch and three primary agricultural credit societies were selected as the banking respondents.

Data collection procedure

Both primary and secondary data have been used for the study. Secondary data were collected from various published sources. Primary data were collected with two separate pre-tested structured schedules from the respondent groups referred earlier. However, the method of data collection was not the same in the groups. The individual respondents were interviewed in person and the banking respondents were consulted through mail.

Methods of Analysis

Mostly tabular method has been resorted to. However, the third objective is analyzed exclusively with the response of the sample bankers who were very few in numbers. Hence, rather than going for an analysis with any statistical tool, a direct reporting method has been used. Also, to study the consumer behavioural aspects, scaling and scoring techniques were used. The results are again presented in tabular form.

Techniques employed

In addition to the most frequently used simple statistical techniques, certain not so frequent techniques were also used. Such techniques are explained below.

Priority index

The index is worked out to rank the factors in the order of importance and also to measure the degree of importance. This is based on the ranks assigned by respondents to each of the factors. The respondents were asked to rank the factors depending upon the importance they attach to each factor. The index value is worked out as follows.

Suppose there are 'n' factors to be ranked, say x_1, x_2, x_3 . . .. x_n, the respondents would assign 1 to 'n' ranks. Since the ranks as such cannot be used for further arithmetical operations, these ranks are converted into scores. This is done in such a way that `n' score is allotted to the factor which the respondent ranked first, n-1 score to the second rank, and thus 1 score to the n^{th} rank. Adding up the individual scores so assigned on a particular factor we get the aggregate score obtained by that factor. Thus the aggregate score obtained by each factor is found out. These aggregate scores are sufficient enough to rank the factors in the order of importance. However, such a ranking would not give any idea about the degree of importance of factors. Hence Priority Index is worked out. This is done by expressing the aggregate scores obtained by each factor as a percentage of the maximum aggregate score obtainable by an individual factor. The maximum aggregate score obtainable will be the numerical product of the number of factors to be ranked, and the number of respondents applicable in the particular case. Hence the index value can be computed by using the following formula.

$$Px_i = \sum_{i=1}^{n} \frac{Es_i}{n \times N} \times 100$$

where

Px_i = Priority Index value for factor x_i

Es_i = The aggregate score obtained by the factor x_i

n = The number of factors

N = The number of respondents applicable in the particular case.

If the respondents assign the same rank to two or more factors, the corresponding scores are to be divided among such factors equally.

Agreement Index

Agreement index is worked out for the purpose of measuring the degree of agreement the respondents have on certain statements given to them. The respondents were asked to express their degree of agreement with the statements given, on a five-point scale. The scale ranges from strongly agree to strongly disagree with a neutral option at the middle. The options of the respondents on the scale are then scored with a weight of four to strongly agree, three to agree, and thus down the line zero to strongly disagree. The scores so obtained by a particular statement are then added up to get the aggregate agreement score of that statement. This score when expressed as a percentage of the maximum obtainable score would form the agreement index value. The maximum obtainable score would be the numerical product of the number of respondents applicable in the particular case, and the highest weight of the scale (four).

RESULTS AND DISCUSSION

RESULTS AND DISCUSSION

In this section an analysis of the collected data was made to realize the stated objectives. Before taking up the issue of credit marketing, the consumer behaviour in the relevant market was first analyzed. The consumer behaviour was studied on three important areas namely institutional choice for credit; credit use pattern and repayment of credit.

Institutional choice for credit

In order to study the institutional choice, details about the borrowal and source of such borrowal during the period between1990 to 2000 were collected from the respondents. The results were presented in Table 4.1. Out of the 300 respondents interviewed 56 (18.67%) did not borrow any money from any source during the reference period. As could be seen from the table, the largest single group of respondents (80; 26.67%) was those who borrowed from both co-operative and commercial banks. However, among those who depended on a single source, it was borrowers from the co-operatives that formed the largest single group with 61 (20.33%) members, followed by borrowers from informal sector and borrowers from commercial banks.

Table 4.1. Source preference of the borrowers

Sl. No.	Sources depended on	No. Of respondents	% to total
1	Co-operatives alone	61	20.33
2	Commercial Banks alone (including RRB)	35	11.67
3	Informal sector alone	41	13.67
4	Both co-operatives and Commercial Banks	80	26.67
5	Co-operatives and/or Commercial Banks and Informal sector Co-operative and informal - 8 Commercial banks and informal - 12 Co-operatives, commercial banks - 7 and informal	27	9.00
	Total borrowers	244	81.33
	Non borrowers	56	18.67
	Total number of respondents	300	100.00

Source: Derived from Primary Data

Nevertheless, this might not give us a complete picture as to which source the borrowers most depended upon. Table 4.2 would give a better picture. From the table it was clear that the respondents showed a higher preference to co-operatives as 63.93 per cent of the borrower respondents had opted to borrow at least once from this source during the reference period. The next preferred source was commercial banks (including an RRB branch). Hence it could be reasonably concluded that institutional preference of Kerala borrowers was more in favour of institutional agencies compared with informal agencies. However, the importance of informal sector could not be overlooked as they could market themselves to 27.87 per cent of the respondents.

Table 4.2. Details about the number of borrowers who have at least one loan account in each source

Sl. No.	Source	No. Of respondents	% to total borrowers
1	Co-operatives	156	63.93
2	Commercial Banks including RRB	134	54.91
3	Informal sector	68	27.87
	Total borrowers	244	-

Source: Derived from Primary data

Factors influencing the institutional preference

Now an attempt would be made to find out the major factors that influenced the preference of the borrowers towards each source. Before that, it might make sense to look into why a section of respondents had not borrowed from any source. The reasons were identified, and prioritized with the help of a 'priority index' (see the chapter on materials and methods) worked out for the purpose. Table 4.3 would give the details.

Table 4.3. Priority index on reasons for non-borrowal

Sl. No.	Reasons	Priority Index value
1	Hesitation/fear about being indebted	84.38
2	Lack of investment motivation	63.84
3	Lack of source attraction (because of high rate of interest in informal sector and procedural formalities in the formal sector)	57.14
4	Financial position is fairly okay	44.64

Source: Derived from Primary Source

It could be observed from the table that hesitation in or fear about being indebted was the major reason why some had not borrowed from any source. The reason was so important that it obtained a very high priority index value of 84.38, which meant that majority of respondents in the relevant group had ranked it as the major reason. This was often true of a section of people who considered that taking credit from some source would impair on their independence, image and prestige. Without breaking this psychological barrier, banks would not be in a position to make a foray into this segment. To get this done, theoretically, there were mainly two ways. One, mostly external to the bank, was that there should be high investment motivation in the economy. Unfortunately, in the perception of non-borrowers in the sample, the investment motivation had been very low (see table 4.3; lack of investment motivation was ranked as a major reason). If investment motivation was low, the second way was to offer very attractive credit products so that those who were hesitant to purchase credit might have got attracted to such products. Both the informal and institutional lenders had failed to offer them such products (for the relevant reason, a reasonably high priority index value could be seen in table 4.3). Such were the main reasons why the non-borrowers in the sample opted to be debt free. However, to be averse to debt, one should have a reasonable income level as well; many in the group had belonged to such an income category as could be read from the relevant index value of 44.64 in table 4.3.

Having studied the factors influencing the behavioural mindset of the non-borrower, now it would be interesting to identify and analyze the factors that influenced the borrowers towards each source. A source-by-source analysis was being made with the help of priority indices worked out in each case. Only those who had borrowed at least once during the reference period from the source concerned were consulted in this regard. Thus co-operatives had a respondent group of 156 members, commercial banks 134 and informal sector 68 (see Table 4.2). Eight factors were identified commonly for all the sources, and respondents were asked to note the factors that they considered as true in their case and rank them according to the priority they would like to attach to each factor. The results were analyzed below.

It was clear from Table 4.4 that the low rate of interest was the most important factor that attracted customers to co-operatives. The relevant index value was as high as 96.31 in this case which meant that almost all those who had borrowed from co-operatives rated interest rate attraction as the first factor in their preference towards co-operatives. Hence, from the marketing point of view, co-operatives could project their interest rate advantage as a unique selling proposition.

Another important factor was that there had been people in the co-operative concerned to help the borrower concerned. It obtained a high priority index value of 73.16. This had a positive sense as well as a negative one. The positive sense was that the officials and staff of the co-operatives kept a good relationship with their customers, something that could be referred as 'relationship marketing'. Customers felt confidence to approach the bank, as there had been people to hear their case and meet their needs. This might be something that would correspond well with both co-operative ideology and modern marketing concept of being member / customer friendly. Hence such a high priority index value on this factor could be treated as the result of a successful credit marketing effort from the part of co-operatives.

However, it could also be doubted as to whether it was a sign of nepotism, favouritism and corruption because most of those who had borrowed had someone in the bank to help them. Was there a portion of potential borrowers who could not borrow from the co-operative because they had had no one in the bank to help him of her? Or, were those who turned to other sources for borrowal were those who could not obtain a loan from the co-operative for want of someone to help them? This was particularly important in the context of increasing literature on wielding political influence over co-operatives in the state.

However, pending further enquiries, nothing concrete could be said about this. Anyway, if it had been done in the positive sense, co-operatives were to be credited for that.

Table 4.4. Priority Index on factors influencing the consumer preference towards co-operatives

Sl. No.	Factors	Scores	Priority Index values
1	Low rate of interest	1202	96.31
2	Speedy delivery of loans	90	7.21
3	Easy procedural formalities	0	0.00
4	Convenient repayment schedule	255	20.43
5	For the particular need, loan was available only with this source	0	0.00
6	There were people in the bank (source) to help the borrower concerned	913	73.16
7	Pleasing behaviour of the staff of the bank/source concerned	250	20.03
8	Proximity to the bank/source concerned	452	36.21
	Maximum obtainable	1248	100.00

Source: Derived from primary source

Nonetheless, in the matters of speedy delivery of loan and procedural formalities to be followed, consumers had not rated co-operatives as any good organization. The respective index values were deplorably low (see table 4.4). Similarly, convenience of repayment schedule and behaviour of the staff were not attractive features in co-operatives. If the behaviour of the staff had not been attractive, it could be reasonably doubted that the 'relationship marketing' observed to be followed by co-operatives was not genuine and in the true spirit.

Tables 4.5 would give the details about the factors that attracted the respondents to commercial banks. In that case also, interest rate attraction was the major reason for the respondents to opt for commercial banks. The respective index value was 80.60. However, it was not as attractive as in co-operatives where the index value was 96.31 (see table 4.4). In both commercial banks and co-operative banks, proximity to the borrower was yet another important factor which attracted customers. Here, the word proximity was used just to mean a shorter distance between the respondent's residence and the banking organization concerned and it did not have any deeper connotation.

Co-operatives and commercial banks stood on similar footing on the product and marketing features like speedy delivery, easy procedural formalities, convenience of repayment schedule etc. However, the behaviour of the staff was found more attractive in commercial banks compared with their co-operative counter parts. This could be considered as a sign of an organized and professional relationship marketing gaining ground in commercial banks. Also noteworthy was a point that the index values on the two seemingly related factors namely 'behaviour of staff' and 'people in the bank to help the borrower concerned' (factors 7 and 6 respectively in Table 4.5) showed some correspondence and similarity in case of commercial banks. It might be read as an indication of a healthy relationship marketing emerging in commercial banks.

Table 4.5. Priority Index on factors influencing the consumer preference towards commercial banks

Sl. No.	Factors	Scores	Priority Index values
1	Low rate of interest	864	80.60
2	Speedy delivery of loans	270	25.19
3	Easy procedural formalities	0	0.00
4	Convenient repayment schedule	209	19.50
5	For the particular need, loan was available only with this source	0	0.00
6	There were people in the bank (source) to help the borrower concerned	335	31.25
7	Pleasing behaviour of the staff of the bank/source concerned	417	38.89
8	Proximity to the bank/source concerned	491	45.80
	Maximum obtainable	1072	100.00

Source: Derived from primary source

Table 4.6 would tell about the informal sector. Speedy delivery and easy procedural formalities were the two important factors that attracted customers to this sector. The relevant index values were 70.77 and 59.74 respectively in this case. This was in sharp contrast with the case of institutional agencies (co-operatives and commercial banks). In their case no customer felt easy procedural formalities as a factor to be ranked and the customers might have experienced delay in getting the loan disbursed. Also, it was clear that there were certain unique products with the informal sector, which the institutional sector did not have. Product uniqueness was not at all felt to the customers in co-operative and commercial banks but was seriously felt to the customers in the informal sector. The priority index values on the factor 'for the particular need, loan was available only with the source concerned' (factor 5, in tables 4.4, 4.5 and 4.6) proved that whatever products available with co-operatives and commercial banks were available elsewhere as well but certain products which the informal sector had were not available with the institutional sector. The respective index value were 59.74 in the informal sector and zero in the other two. In the matter of convenience of the repayment schedule also, the informal sector was much ahead of its institutional sisters. Quite against this, no customer was attracted to the informal sector based on the rate of interest that it charged, but it was the major attraction to the customers in the other two institutions.

Table 4.6. Priority Index on factors influencing the consumer preference towards informal sector

Sl. No.	Factors	Scores	Priority Index values
1	Low rate of interest	0	0.00
2	Speedy delivery of loans	385	70.77
3	Easy procedural formalities	325	59.74
4	Convenient repayment schedule	222	40.80
5	For the particular need, loan was available only with this source	307	56.43
6	There were people in the bank (source) to help the borrower concerned	72	13.24
7	Pleasing behaviour of the staff of the bank/source concerned	32	5.88
8	Proximity to the bank/source concerned	190	34.92
	Maximum obtainable	544	100.00

Source: Derived from primary source

Thus it could be generalized from the above analysis that the co-operatives and commercial banks performed similarly in their credit marketing efforts but a totally different strategy was adopted by the informal sector. When the informal sector players focused on product mix (easy procedural formalities, uniqueness of products and convenient repayment schedule) and distribution mix (speedy delivery of loans) in their marketing strategy, the institutional credit marketers focused more on price mix (low interest rate) and promotion mix (relationship marketing), though to a minimal level, in their strategy to attract borrowers. From the consumer behaviour angle, it could be said that there were different consumer classes or segments in the credit market with different priorities depending upon the need that they would like to satisfy; when the majority had borrowed from institutional lenders whose price mix was attractive, some had borrowed from the informal lenders whose product mix was attractive. The learning point from the consumer behaviour exhibited by the respondents was that there would be still prominence to price mix in the rural credit market, even then, other mixes would also be important to attract customers.

Institutional preference in relation to customer characteristics

Having studied the general institutional choice of the borrowers and the factors behind their preference, now an attempt would be made to further examine their institutional preference by relating it with some of the customer characteristics. Occupation and income level were the two customer characteristics considered for this purpose. The occupational profile of the respondents and its influence on the institutional choice behaviour would be discussed first.

Institutional choice of different occupational categories

In order to study the occupational profile, respondents were classified into six categories based on the main occupation of the family head. However, here the family head did not mean that he or she was the eldest member of the family, rather the decision maker and resource allocator on whom normally the other members of the family depend upon was considered as the family head. Besides, it might be imperative to note that almost all the respondents were farmers at the one side though a separate category called `farmers' was taken. It meant only that the members in that particular category did not have any other major occupation. The profile was presented in Table 4.7.

Table 4.7. Occupational profile of the respondents

Sl. No	Occupation	No. Of respondents	% To total
1	Government servants	44	14.67
2	Professionals	16	5.33
3	Organized private sector employees	47	15.67
4	Farmers	65	21.67
5	Businessmen	57	19.00
6	Labourers	71	23.67
	Total	300	100.00

Source: Derived from primary source

In the sample 23.67 per cent of the respondents were labourers that was the biggest among the different occupational groups. The second in order was farmers with 21.67 per cent and the smallest group was professionals with 5.33 per cent. Since the table remained self-explanatory no further detailing would be made here.

Details of the institutional choice of different occupational categories were given in Table 4.8. It revealed a marked difference in the choice behaviour between certain occupational groups and some similarities among certain groups.

More than 50 per cent of government servants belonged to the non-borrower category. All the remaining members in the group borrowed from either co-operative bank or commercial bank or both. They chose co-operative banks and commercial banks almost equally, though their preference was slightly higher in favour of commercial banks.

Table 4.8. Institutional choice of different occupational categories

Sl. No.	Occupation	A	B	C	D	E	F	Total
1	Government servants	52.27	11.36	15.91	-	20.45	-	100
2	Professional	37.50	6.25	56.25	-	-	-	100
3	Organized private sector employees	4.26	29.79	4.26	-	51.06	10.20	100
4	Farmers	27.69	29.23	12.30	3.08	24.62	3.08	100
5	Businessmen	8.77	17.54	3.51	15.79	45.61	8.77	100
6	Labourers	2.82	16.90	9.86	42.25	7.04	21.13	100

Source: Derived from Primary source

A - Non borrowers
B - Borrowers from co-operative alone
C - Borrowers from commercial banks alone
D - Borrowers from informal sector alone
E - Borrowers from co-operatives and commercial banks
F -Borrowers from informal sector and co-operatives and/or commercial banks

* The figures indicate how much percentage of members of a particular occupational class borrowed from a particular source.

Professionals also followed a similar trend. Like the government servants, a good number of professionals (37.50 per cent) remained non-borrowers. However, their preference was markedly higher for commercial banks (56.25 per cent) than co-operatives from where only meager 6.25 per cent had borrowed. Interestingly none of the borrowers belonging to both these groups had borrowed any money from informal lenders.

No much different was the case of organized private sector employees. While as high as 51.06 per cent of them had borrowed from both co-operative and commercial banks, another 29.79 per cent had borrowed from co-operative banks alone. Hence in the case of organized private sector employees, as opposed to professionals, the preference was more for co-operatives compared with the other institutional lender. Nonetheless, 10.20 per cent of them had borrowed also from informal sector simultaneously with an institutional borrowal.

The next category was farmers. As much as, 27.69 per cent of them had not borrowed from any source during the reference period. The biggest single group among them (29.23 per cent) had borrowed only from co-operatives. However, a similar number of them (24.62 per cent) had borrowed from both co-operative and commercial banks. Only very few had depended on informal sources.

Negligible was the number of businessmen who fell in the category of non-borrowers. More than 50 per cent of them borrowed from more than one source out of which 45.61 per cent borrowed from both co-operative and commercial banks. Among those who had borrowed exclusively from one source belonging to this category preferred co-operatives and informal lenders more compared with commercial banks.

Labourers as a class chose to depend heavily on the informal sector. As high as 63.38 per cent of the labourers had borrowed from this source which included an exclusive 42.25 per cent who had borrowed from this source alone. Though at a minimal level, compared with commercial banks (9.86 per cent) they better preferred to co-operatives. Only 2.82 per cent of them could remain debt free.

Recapitulating the whole discussion, one could arrive at some very important findings. More organized occupational classes having a stable income, namely government servants, professionals and organized private sector employees depended almost exclusively on institutional sources. From these three classes only a few belonging to the organized private sector employees' category borrowed from informal sources. Whereas, less privileged a class like labourers depended mostly on informal sources; remember that this was the largest single class of borrowers in the sample (see Table 4.7). The local moneylenders normally lured labourers with small loans on demand having a flexible repayment schedule, daily or weekly, which would correspond with their pattern of income generation. Though interest rate was often high, it was not so felt as it was collected with principal on regular basis. However, farmers did not show any much of interest in informal sector, might be because they were conservative in the matter of interest rate and the pattern of their income generation (the income was exclusively from farm) might not match well with the repayment schedule normally being offered by informal sector. Businessmen showed a tendency to borrow from whatever possible sources and were less discriminent between sources.

Another important point emerged from the above analysis was that Government servants, professionals and farmers were very conservative about availing of credit. Substantial number of them kept away from borrowing as such. In sharp contrast, a very high majority of members in all the other occupational groups borrowed from one or more sources or say they were falling ready customers to credit marketers.

Institutional choice of Different Income Level Categories

The profile of income level of the respondents is given in Table 4.9. The respondents were categorized as belonging to five levels of income. Thirty four per cent of the respondents belonged to a monthly income level of Rs.2000 to Rs.4000 and which was the largest single group in the sample. Another 27.33 per cent fell in the category of Rs.4000 to Rs.6000 and which was the second largest in the sample. Those who had an income level of less than Rs.2000 or more than Rs.8000 (which were the two extreme classes considered here) was around 10 per cent each. Here, the institutional choice of the respondents would be related their income profile. Table 4.10 would give the details of this relationship.

Table 4.9. Income profile of the respondents

Sl. No.	Income category	No. of respondents	% to total
1	Monthly income below Rs.2000	30	10.00
2	Rs.2000 to Rs.4000	102	34.00
3	Rs.4000 to Rs.6000	82	27.33
4	Rs.6000 to Rs.8000	51	17.00
5	Rs.8000 and above	35	11.67
	Total	300	100

Source: Derived from primary source

As could be seen from Table 4.10, as high as 66.67 per cent of those in the income category of below Rs.2000 had borrowed from informal sources, mainly local moneylenders, and out of which 56.67 per cent had borrowed exclusively from this source. The other preferred source was co-operatives because 26.67 per cent of them had an exclusive dependence on this source.

Members of the income category Rs.2000 to Rs.4000 offered themselves more to institutional agencies in general and to co-operatives in particular. 39.22 per cent had borrowed exclusively from co-operative banks and another 21.57 per cent had borrowed from both co-operative and commercial banks.

Table 4.10. Institutional choice of different income categories

Sl.No.	Occupation	A	B	C	D	E	F	Total
1	Monthly income below Rs.2000	6.67	26.67	-	56.67	-	10.00	100
2	Rs.2000 to Rs.4000	7.84	39.22	9.80	14.71	21.57	6.86	100
3	Rs.4000 to Rs.6000	13.41	10.98	3.66	7.32	52.44	12.20	100
4	Rs.6000 to Rs.8000	41.18	3.92	33.33	5.88	15.69	-	100
5	Rs.8000 and above	40.00	5.71	14.29	-	20.00	20.00	100

Source: Derived from Primary source

A - Non borrowers
B - Borrowers from co-operative alone
C - Borrowers from commercial banks alone
D - Borrowers from informal sector alone
E - Borrowers from co-operatives and commercial banks
F - Borrowers from informal sector and co-operatives and/or commercial banks

* The figures indicate how much percentage of members of a particular income class borrowed from a particular source

Nevertheless, around 20 per cent depended on informal sector as well, exclusively or otherwise. This group and the lower-income group, however, could not remain debt free to any noticeable level. It might also be noted (from Table 4.9) that almost 45 per cent of the sample was constituted by these two groups together. Here, it could be inferred that the lower income groups, the numerical strength of which is more, were more prone to credit consumption and hence would constitute a potential customer segment.

Those in the income group of Rs.4000 to Rs.6000 depended mostly on institutional agencies. They did not discriminate much between the two institutional agencies, though there was a slightly higher preference to co-operatives. Only around 20 per cent of this group had borrowed either exclusively or otherwise from informal agencies. Another 13.41 per cent did not borrow from any source.

The last two income categories consisted of non-borrowers around 40 per cent. This could be because of the higher income level they have. However, 40 per cent of the highest income group depended on informal sources. It is indicative of the fact that the group consisted of government servants, professionals and businessmen among others because it was the government servants and professionals who were mostly non-borrowers and it was the businessmen who borrowed from informal sources to a certain extent. Both these groups (the two higher income groups) noticeably preferred commercial banks to co-operatives. It might be because of the reason that their income level might have allowed them to have a better relationship with commercial banks compared with the lower income group.

In nutshell, it could be said that the lower income group, in general, had chosen the informal lenders more while the higher income group had preferred institutional lenders. Among institutional lenders, when the middle-income group had preferred co-operatives more, the high-income group had opted for commercial banks more.

Credit Use Pattern

Under this section, an analysis as to how the amount borrowed had been used by the borrowers was attempted. Here the purposes of borrowal being expressed to the banks and the actual purposes for which the amounts were being used by the borrowers were compared. One of the importance of such an analysis was that if the amounts were not used appropriately by the borrowers for the expressed purposes, it was likely that the banks' expectations about the income generation potentiality of the loans delivered might go wrong. Consequent on that their repayment expectations would also get jeopardized. This would ultimately result in banks' marketing strategies and programmes failing.

Yet another importance of this enquiry was that it would help in identifying the various purposes to which the borrowed amounts were diverted, if there was any such diversion. Once such purposes could be known, together with the reasons for such diversion; banks would be in a position to think of product modifications and additions, if that would fetch a better result.

For this analysis, only the borrowers from institutional agencies were considered because only rarely informal agencies bothered to attach their lending to any specific purpose. Unlike the institutional agencies, no much purpose insistence was seen among informal agencies. They took mainly into consideration only the overall repaying capacity of a borrower and not probably the income generation capacity of any particular loan advanced. Mostly, borrowers were free to use the amount for any purpose of their choice. Hence of the total 244 borrowers in the sample only 203 were considered here as 41 borrowers had borrowed exclusively from informal sector alone.

From the primary data collected, it was clear that the loan amounts were not appropriately used for the expressed purpose by the borrowers. There were considerable cases of loan diversion. Table 4.11 would give the details of purpose-wise loan diversion. The percentage of amount diverted from the total amount of loans borrowed for a particular purpose and the number of borrowers who diverted the amount as a percentage of the total number of borrowers in that category of loan were found out. Ten purposes for which borrowers availed off loans were considered for this analysis with some of them having their on sub-categories.

It could be seen from Table 4.11 that loans for agriculture were diverted considerably. Both in terms of amount and the number of borrowers the diversion was generally high in this case. However, among the agricultural purposes, crop loans and loans for land developments were the major purposes from which substantial diversion occurred. When 61.19 per cent of the crop loans were diverted by 85.96 per cent of the borrowers; 42.02 per cent of the loans for land development were diverted by 75.47 per cent of borrowers in that category. It might also be noted from Table 4.19 that agricultural purposes constitute a major purpose of loan borrowal and this alone would amount to more than 50 per cent of the total borrowal. Hence, the incidence of diversion in the total borrowal would be high as there was high degree of diversion in crop loans and loans for land development. Nonetheless, loan diversion was not so heavy in other agricultural purpose borrowals like loans, for minor irrigation, plantations, dairy, poultry, piggary etc. A similar trend was seen in case of loans for agricultural implements and machineries, and processing units. Even then, diversion of loans was not so negligible in purposes like minor irrigation, dairy, smoke house etc.

Table 4.11. The purpose-wise amount of loan diversion and the number of respondents diverted in percentages

	% amount	% number
1. Agriculture		
a. Crop loans	61.19	85.96
b. Land development	42.02	75.47
c. Minor irrigation	21.11	37.50
d. Plantation	18.62	18.18
e. Dairy	22.01	22.73
f. Poultry	19.36	20.00
g. Piggary	18.21	50.00
2. Agricultural implements, machinery and processing units		
	28.62	33.33
a. Smoke house	6.65	25.00
b. Rubber roller	5.02	12.50
c. Pump set	6.90	00.00
d. Sprayers		
3. Bio-gas plants	12.65	20.00
4. Industrial loans	33.75	66.67
5. Loans for consumer durables	3.31	15.63
6.a. Housing loan (new construction	18.14	33.33
b. Housing loans (renovation)	34.51	57.89
7. Education loans	15.90	16.67
8. Small business and loans to traders	32.67	65.91
9. Vehicle loans	0	0
10. Slaughter tapping	23.92	66.67

Source: Derived from Primary source

The other major purposes from which amounts were diverted were industrial loans, house renovation loans and small business loans and loans to traders. Around 60 per cent of the borrowers had diverted around 33 per cent of the amounts from these types of loans. Diversion was not to a serious magnitude in other types of loans, and interestingly, borrowers did not divert any amount from vehicle loans.

Loan Diversion in Relation to Customer Characteristics

Since there was huge diversion of amounts from crop loans and loans for land development, these two purposes were further studied by taking the two customer characteristics namely occupation and income level. This is to know whether there was any difference between the groups in the matter of loan diversion.

Loan Diversion among Different Occupational Categories

Both crop loans and loans for land development would be analyzed here separately. The percentage of amount diverted by each occupational category together with the percentage number of diverted borrowers to the total borrowers of the particular loan from the particular occupational class were given in Table 4.12.

Table 4.12. Occupational category-wise loan diversion

Sl. No.	Occupational category	Crop loans		Loans for land development	
		% amount	% number	% amount	% number
1	Government servants	49.76	76.00	30.98	66.67
2	Professionals	40.96	75.00	33.96	75.00
3	Organized private sector employees	75.17	87.50	53.31	83.33
4	Farmers	51.34	79.07	39.10	63.64
5	Businessmen	83.81	90.38	58.42	92.31
6	Labourers	66.10	92.31	36.35	100.00

Source: Derived from Primary source
* Figures indicate percentage to the total of occupational category

As could be seen from Table 4.12 more than 75 per cent of all occupational classes had diverted amounts from crop loan and there was no sharp divide between the occupational classes in this regard. However, when around 90 per cent of businessmen, labourers and organized private sector employees diverted crop loans only about 75 per cent of the government servants, professionals and farmers diverted the same. Similar divide was seen in case of amounts diverted as well. When government servants, professionals (in whose case only 40.96 per cent) and farmers diverted around 50 per cent of the amount, the other classes diverted around an average of 75 per cent. Nevertheless, there was considerable variation between the different occupational classes in the latter group as the businessmen toped the list with 83.81 per cent of amount deviated, followed by organized private, sector employees with 75.17 and the labourers with 66.10 per cent.

No much different was the case of crop loans as well. It was the business class with 92.31 per cent of the borrowers, having diverted the highest percentage of amount (58.42), toped the list. Closely followed were organized private sector employees with 53.31 per cent of the amount diverted. Seventy five per cent of the professionals, 66.67 per cent of the government servants, and 63.64 per cent of the farmers had diverted loans for land development. However, their diversion was to the magnitude of only around 35 per cent of the amount. Though all the borrowers who had borrowed land development loans diverted the fund, the magnitude of their diversion is only up to 36.35 per cent of the borrowed amount.

Loan Diversion among Different Income Categories

The details of loan diversion among different income categories were presented in Table 4.13. In case of crop loans, the first two income strata, say the lower income group, diverted around 55 per cent of the amount and it was by around 90 per cent of the borrowers in both the categories. Around only 78 per cent of the other three categories (which could be considered as middle income and higher income categories) had diverted crop loans. Nonetheless, the middle-income group had diverted 76.37 per cent of the amount and that was of the highest magnitude of diversion among all the categories. The high-income group had diverted around 60 per cent of the crop loans borrowed. Hence it could be generalized regarding diversion of crop loans that though the percentage of borrowers diverting was high in the lower income group; the percentage of amount diverted was less in their case. Just reverse was the case of higher income groups but the middle-income group had diverted the highest amount among all the groups.

In case of loans for land development, all the borrowers of the lower income group had diverted the loans, however, their diversion was only to the magnitude of 26.02 per cent of the amount borrowed. The other four groups had diverted around 45 per cent of the amount and the percentage of members diverted ranged between 60 to 85 per cent. Similar to that of crop loans, in this case also, the middle and higher income groups had diverted higher percentage of amount than the lower income group.

Table 4.13. Income category-wise loan diversion

Sl. No.	Income category	Crop loans		Loans for land development	
		% amount	% number	% amount	% number
1	Below 2000	60.66	88.24	26.02	100.00
2	2000 to 4000	53.12	93.75	40.85	75.00
3	4000 to 6000	76.37	79.17	48.31	60.00
4	6000 to 8000	58.08	76.67	48.88	78.95
5	Above 8000	63.72	78.57	46.04	84.62

Source: Derived from Primary source

* Figures indicate percentage to the total of occupational category

Reasons for Loan Diversion

It was clear from the above analysis that considerable amount of diversion had been there in case of loans borrowed from institutional lenders. Hence, it might be imperative to look into the reasons as to why it was diverted. In this section, by constructing a priority index, an analysis of reasons for loan diversion was carried out. The respondents were asked to point out the reasons that they found as true in their case from a list of reasons given. The respondents were also asked to express their priorities in ranks to each of the reason they felt as important. Only those who had diverted loans borrowed from institutional sources were considered in this regard. The reasons with their priority index values were given in Table 4.14.

The most important reason for loan diversion was that the purpose of one expecting to avail of a loan was not just one but many. It obtained a very high priority index value of 63.11. It meant that a substantial number of borrowers were predetermined to divert the loans. Hence diversion was not at all accidental or unexpected in most of the cases. The second important reason for loan diversion was that the rate of interest would be higher for the loans for real purpose. The relevant index value was 41.73. It suggested that the borrowers willfully opted a particular type of loan, even when loans were available for their real purpose, with an ulterior motive of taking the price advantage on their credit purchase. In that case also, diversion was predetermined. However, nonexistence of credit for the real purpose was also an important reason, at least in some cases, as it obtained an index value of 38.11. Besides, procedural difficulties and delay in getting loans for the real purpose and difficulties in offering securities for getting loan for the real purpose were important reasons to some of the borrowers and they obtained index values of 30.74 and 28.76 respectively.

Table 4.14. Reasons for diversion

Sl. No.	Reasons for diversion	Scores obtained by each reason	Priority index value
1	Non existence of credit products for the real purpose	558	38.11
2	Rate of interest would be higher for the loans for real purpose	611	41.73
3	Procedural difficulties and delay in getting the loans for the real purpose	450	30.74
4	Difficulties in offering securities for getting the loan for real purpose	421	28.76
5	Behaviour of the staff of bank which was capable of offering a loan for the real purpose was poor	12	00.82
6	The purpose of one expecting to avail of a loan is not just one but many	924	63.11

Source: Derived from Primary source

Repayment Behaviour

This would be another important area where consumer behaviour played a decisive role as far as credit marketers are concerned. In order to study the repayment behaviour, borrower respondents from all the three agencies (co-operative banks, commercial banks and informal agencies) were separately classified into prompt payers and defaulters. Thus the number and percentage of defaulters to the total borrowers and the amount and the percentage amount of default to the total borrowal were arrived at for each source. The details were given in Table 4.15.

It could be noted from Table 4.15 that borrowers from the co-operatives were the highest defaulters when compared with borrowers from commercial banks and informal sector. As high as 37.82 per cent of co-operative borrowers had defaulted on their loans, closely followed by commercial bank borrowers with 33.58 per cent. However, only 16.18 per cent of the informal sector borrowers happened to default. At the aggregate level, 31.15 per cent of the borrower respondents had defaulted on their loans.

More than 50 per cent of the defaulters were those who borrowed from more than one source. This was clear from the fact that out of the total 76 borrowers defaulted, 39 are those who depended upon more than one source. Hence it could be doubted whether there would be a high probability of default from the part of those who borrowed from more than one source.

The percentage amount of default to the total amount borrowed showed a very similar pattern as the number of defaulters to the total borrowers. Co-operatives had the highest default rate of 14.61 per cent of the amount borrowed, closely followed by commercial banks with 11.09 per cent. It should be mentioned here that the total borrowal in amount from commercial banks was higher than that from co-operative banks. Despite that the default rate was lower in commercial banks compared with the other institutional counterpart. The percentage of default in amount to the total borrowal was lowest in informal sector and it was only six per cent. Hence, the consumer behaviour with respect to repayment gave a better deal to the informal sector when compared with institutional sector.

Table 4.15. Number of defaulters and amount of default in absolute terms and in percentage

Sl. No.	Source	No. of respondent	% number of respondent	Amount	% of amount
1.	Co-operative Borrowers	59	37.82	1185500	14.61
2.	Commercial Bank Borrowers	45	33.58	1315000	11.09
3.	Informal Sector Borrower	11	16.18	258500	6.00
	Total of Borrowers in the sample	76	31.50	2759000	11.36

Source: Derived from primary source

Reasons for prompt payment

It was already clear that more than 85 per cent of the amount was promptly repaid by the sample borrowers. Also, when a section of around 35 per cent of the borrowers defaulted, the remaining could make prompt payment. There would be some definite reasons or motivations for a section to repay promptly. Here an attempt would be made to probe into such reasons with the help of a priority index worked out for the purpose. Out of the 244 borrowers in the sample only 76 had defaulted and 168 were prompt payers. It was the responses of this168 borrowers that were made use of in this section for analyzing the reasons or motivations for prompt payment. The reasons/motivations, together with their priority ratings, were obtained from this group and the priority index values calculated upon that were given in Table 4.16.

From Table 4.16 it could be identified that fear about debt burden increasing was the major reason for the prompt payers to do so. The relevant index value is as high as 70.41 per cent. This fear was, in fact, an inner self-motivation. It could be considered as self-awareness as to one's own capacity to repay and an intense feeling to be debt free and independent. Hence, paying back a debt was basically a self-driven behaviour and the majority repaid because they had such an urge or drives to do so. This consumer behaviour aspect suggested two important points relevant to credit marketing. One was that if banks were successful in identifying potential borrowers having this sort of drives, well in advance of delivering credit, default would be minimal and least willful. In order to identify, in advance, whether one was having such drives or not use of psychological and behavioural scaling techniques or other predictive techniques could be thought of. The other point was that if the policies and decisions of a bank or controlling agents like government or central bank, in some way, happened to free the borrowers from their fear about debt burden increasing, that might result in borrowers defaulting on their loan accounts. This could be the reason why there were found to be a general decline in loan repayment when government or political authorities just hinted about loan waver or such other things. Such policies or expression of political intentions might have had the potential of relieving the borrowers from their fear of increasing debt burden.

Table 4.16. Priority index on reasons for prompt payment

Sl. No.	Reasons for prompt repayment	Scores	Priority index value
1	Fear about increase in the debt burden (lack of mental preparedness to remain indebted)	828	70.41
2	Penal interest	482	40.99
3	Motivation and compulsion from the lender	516	43.87
4	Chances of getting a second loan	530	45.07
5	Fear about violating the contract with the bank or the lender	640	54.42
6	Interest subsidy in case of prompt repayment	329	27.98
7	Fear about social criticism	255	21.68
	Maximum obtainable score	1176	100

Source: Derived from Primary source

The second important reason was a closer sister of the first one. The fear about violating the contract with the bank or the lender was the reason. It obtained an index value of 54.42 which was the second highest. Read the first and second reasons together one might be able to generalize that it was primarily the borrowers' fear and self-motivation that made them prompt payers.

Other major reasons were the practice of charging penal interest, motivation and compulsion from the lender and the chances of getting a second loan. Of this the last two were more applicable in the case of informal credit because the personal compulsions were very high at the one side and the borrowers normally tried to keep open a source of credit that could be accessed very easily and emergencies met without time delay. Charging penal interest rate, though was prevalent in some co-operatives, had not yet become a very popular tool in motivating the borrowers to repay promptly. However, such threat of penalty might produce better result as it was ranked as an important reason by some of the respondents.

Reasons for Default

Having seen the reasons for prompt repayment, now it would be worthwhile to look into the reasons for default. Since the total number of defaulters in the sample was 56, only these 56 persons were consulted for identifying and prioritising the reasons for default. The priority index worked on the reason for default could be seen in Table 4.17.

Unexpected losses and difficulties occurred in personal life was ranked as the first reason by the defaulters for their failure to pay in time. It obtained a high index score of 73.03. The second important reason as cited by them was that there had been shortfall in actual revenue than expected when the loan amount were used for certain income generating purposes. This could be true in some cases as the prices of agricultural commodities in this decade fallen to unprecedented levels, especially in case of some major commodities. If the genuineness of these reasons could be appreciated, it might be believed that the default from the part of borrowers were mostly nonwillful. Another important reason applicable to institutional borrowers was that they had been under financial compulsion to repay first the high interest loans that they had borrowed, probably, from informal moneylenders. Since 27 borrowers had borrowed both from informal and institutional sources, chances of this sort of a financial imperative could not be neglected.

Table 4.17. Priority index on reasons for default

Sl. No.	Reasons	Scores	Priority index value
1	Because of the short fall in actual revenue from expected revenue	281	61.62
2	Unexpected losses and difficulties occurred in life	333	73.03
3	Was under financial compulsion to pay high interest loans first and postpone the payment of low interest loans	182	39.91
4	Repayment schedule did not correspond to the income generation	172	37.72
5	Difficulties in obtaining a new loan of the existing ones were repaid	17	3.73
6	Possibilities of debit write off	112	24.56
	Maximum obtainable score	456	100

Source: Derived from Primary source

However, the presence of willful defaulters could also be discerned from the table. The borrowers' complaint about repayment schedule could be partly true, but their expectation about debt write off might be seen as a sign of the tendency to default willfully. These two reasons also obtained noticeable index values of 37.72 and 24.56 respectively.

Though prompt payment was primarily a self-driven act, banks were found to have some scope for improving the recovery performance. This might be important because the presence of willful defaulters was noticed. In this regard, the respondents were asked to comment about their likely behaviour in the form agreement or disagreement on a five-point scale to certain statements give for the purpose. The statements and the agreement index value obtained by each statement could be seen in table 4.18. The index was constructed with the opinion of all the 244 borrowers in the sample and hence included the prompt payers as well.

Table 4.18. Agreement index on repayment behaviour

Sl. No.	Statements	Score	Agreement index value
1.	If you have availed of two loans, one from a bank and the other from a money lender, you would try to repay first the loan from the money lender	815	83.50
2.	You would try hard to repay a loan somehow if the bank's practice is to charge a heavy penal interest rate	682	69.87
3.	If the bank's officials persistently visit and compel you to repay a loan, you would try hard to repay it somehow	736	75.41
	Maximum obtainable	976	100.00

Source: Derived from primary source

The analysis revealed that the potential loanees might be screened based on the nature of other loans that they already had. If they had high interest loans, it was more likely that they would divert the income for repaying the high interest loan, even if the income were generated from the newly given loan. The statement in this respect obtained a high agreement index value of 83.50 (see Table 4.18.). This point might be especially relevant while dealing with customers having obligation in informal sector. Another implication of the statement is that a low rate of interest might not be necessarily good, if looked at from the angle of repayment behaviour. However, without detailed research in this area, nothing concrete could be said about this.

Another point was that a threat of charging heavy penal interest might compel the borrowers to pay in time. The statement to this effect obtained a moderate index value of 69.87. Nonetheless, as was stated earlier, this would not be a very positive tool. The genuine borrowers, who would be even otherwise prepared to pay, might shy away from borrowing fearing an eventuality of they failing to pay in time and getting penalized. Hence, such tools might be adopted only after a detailed enquiry.

The third was the oft-repeated necessity of improving the monitoring and follow up of the recovery activities. If the defaulters were personally visited and compelled by the bank authorities, the recovery would definitely increase. The statement in this respect obtained a high index value of 75.41. Many respondents citied this as a prominent tool of the informal sector lenders. Institutional lenders could also think of improving their activities in this regard.

Bankers' Product Mix vis-à-vis Rural credit needs

One of the important objectives of the present study was to examine the rural credit marketing by different agencies with special reference to product mix vis-à-vis rural credit needs. While analysing the consumer behaviour, many issues relevant to this objective were already discussed in this report. However, here an attempt would be made to realize the objective in a more concrete and systematic manner.

One of the important parts of this objective, indeed, was 'banks' product mix vis-à-vis rural credit needs'. The purpose of having included such an objective in this study was to know whether the credit products being offered by banks corresponded well with the actual credit needs of the people. Hence the purpose wise distribution of credit as availed of by the borrowers was to be profiled at the one side and the actual credit needs of the people were to be identified at the other side. Cross matching the two, conclusions could be drawn as to whether the true needs of the people were reflected in the products offered by banks. Nonetheless, credit need could not be expected to remain static. It would change over the years and it might vary from individual to individual. Profiling the variations in each individual's needs would be difficult and beyond the limits of this report. Hence, the various individual needs were grouped and classified into certain basic categories in such a way that each category would consist of many similar needs of different households as also the similar needs of each household. For example, a category like 'investment need in agriculture' would include the particular investment need of all the respondent households for all the different agricultural operations. The amount of money spent by the whole sample on each need category was used to measure the overall magnitude of the need in each category. Thus, the overall magnitude of the need was worked out at the aggregate level for the whole sample in each category.

This was done for two different periods. For that, the needs were classified as belonging to two time periods based on the time at which the needs had occurred. This was to explore the changes in the magnitudes of different needs over the years. The periods considered here were the five years periods from 1990 to 1995 and from1995 to2000.

The growth rate of the magnitude of each need category from first period to the second period was then worked out. This growth rate could be considered as a measure of the change in the need intensity in credit market over the years. The term need intensity was used here with a marketing context to refer about the prominence or importance of a particular need as felt to the consumers as a class at an aggregate level.

Similarly, credit products offered by banks and as availed of by the respondents were grouped into similar basic categories as the needs were grouped into. This grouping was made possible by looking into the purpose wise distribution of the credit products. Then the overall magnitude of each product category was found out for the same periods as considered above. Further, the growth rate of the magnitude of each product category from the first period to the second period was worked out. This growth rate could be considered as a measure of the change in the product intensification in the market. The term product intensification was used here to connote to the manifested extent of emphasis that the banks had given on each product in the product mix offered to their customers. In other words, if product intensification was high for a particular product category, it meant that the actually manifested emphasis (need not necessarily be intended emphasis) of the banks had been more on that product category compared with other product categories in their product mix.

The marketing theory held that it would be ideal to have product intensification in accordance with the need intensity in the market. This would be a better customer orientation and thus an efficient way of winning more customers with higher sustainability. Hence, by matching the product intensification measure with the need intensity measure, here, it would be attempted to draw conclusions on the question of product mix vis-à-vis rural credit needs.

Credit Needs and the changes in need intensity

In order to arrive at the credit needs of people the respondents were asked to list out the major purposes for which they spent money during 1990 to 1995 and 1995 to 2000. Since credit demand was a demand for money or purchasing power, any major spending, other than routine expenditures, by a person could be considered as a shadow or dummy of a credit need. Hence the major purposes and the amount of money spent on each purpose by the respondents were found separately for both the periods. The need intensity measures were then worked. Results were presented in Table 4.19.

Very interesting points emerged from this analysis. It could be seen from Table 4.19 that the need intensity on categories like agriculture and industry had come down from the first period to the second period. The need intensity had declined by little over 10 per cent in these cases. It meant that their investment in both the sectors had been coming down. Similarly, money spent on securing jobs, which included those spent on obtaining foreign assignments as also donations and capitation fees paid on getting jobs in the more organized sectors within the country, had also marked a negative growth rate, say the need intensity got reduced.

Table 4.19. Major purposes for which respondent households spent money during 1990-1995 and 1995-2000 (the amounts are averages per household per year)

Sl. No.	Major purposes	1990-95	95-2000	Growth rate
		Amount in Rs.	Amount in Rs.	Percentage
1	Investment in agriculture including purchase of agri-machineries and implements	8154	7227	-11.37
2	Investment in industry	1250	1094	-12.48
3	Investment in trade and small business	1740	2385	37.07
4	Purchase of land	1010	1179	16.73
5	Construction of houses	1410	1986	40.85
6	Renovation of houses	1827	2500	36.84
7	Purchase of consumer durables	519	732	41.04
8	Purchase of vehicles	420	549	30.71
9	Education of children	3068	5156	68.06
10	Money spent on securing job	93	81	-12.90
11	Major health care expenses	182	222	21.98
12	Spent on ceremonies like marriage	1230	1374	11.71
13	Construction of wells, tanks etc. and purchase of pump sets	141	152	7.80
14	Spent on securing gas connections and bio-gas plants	296	420	41.89
	Total	21340	25057	17.42

Source: Derived from primary source

All the 11 remaining needs registered positive growth rates, which implied increasing need intensity. However, the degree of intensity differed considerably between them. Education of children was the one expenditure item that registered the highest need intensity measure of 68.06 per cent. It meant that this need had considerably intensified in its magnitude over the years. Other major needs marked higher growth rates were purchase of consumer durables (41.04%), construction of new houses (40.85%), renovation of houses (36.84%), investment in trade and small business (37.07%), purchase of vehicle (30.71%) and major health care expenses (21.98%). In all these cases, the intensity of credit need had increased in the period between 1995-2000 compared with the period between1990 to 95.

Besides, an analysis of these needs on the basis of absolute figures also might make sense. Though the need intensity for investment in agriculture was on the decline, it remained the most important rural credit need in both the periods. The magnitude of the need was Rs.8154 per annum per household in 1990 to 95 and which had fallen down to Rs.7227 pen annum per household in 1995 to 2000. The next important one was education of the children with Rs.3068 per annum per household in the first period shooting up to Rs.5156 per annum per household in the second period. Other major items were renovation of houses (Rs.1827 and Rs.2500 respectively in the periods) and investment in trade and small business (Rs.1740 and Rs.2385 respectively in the periods).

Product Mix offered by Institutional Lenders

Now it would be imperative to compare these credit needs and the changes in such needs with the credit products being offered by banks. For that, various credit products being offered by banks to the respondents were classified and listed under nine heads for the periods referred earlier. In order to make it comparable with the credit needs of the sample as listed earlier, the per annum per household amounts were worked out in this case also. Growth rate of the magnitude of each product category were then computed to know the change in the measure of product intensification from the first period to the second period. Table 4.20 would give the results.

It could be observed from Table 4.20 that agricultural loans, which included crop loans, loans for land development, loans for agricultural implements and machineries etc. (see Table 4.11 for a detailed list), was the highest single class of loans offered by banks in both the periods to the sample. The amounts were Rs.3158 per annum per household and Rs.3892 per annum per household respectively in

1990 to 95 and 95 to 2000. Housing loans, which consisted of loans for new construction and loans for renovation, was the second highest with Rs.1012 per annum per household and Rs.1184 per annum per household respectively in the first and second periods considered here. Loans to small business and traders were the third major one closely followed by industrial loans. These four categories together formed more than 90 per cent of the total lending of the institutional agencies to the sample in both the periods.

All the loan categories except educational loans and loans for biogas plants registered a positive growth rate, showing an increasing trend from first period to the second. It meant product intensification had taken place in these cases. Among the major loans, loans for agricultural purposes showed the highest degree of product intensification with a growth rate of 23.24 per cent followed by housing loans with 17 per cent. The other two major loans (loans to small business and traders, and industrial loans) had grown at a rate of little over 10 per cent.

Table 4.20. Purpose-wise lending made by institutional agencies to the respondents during 1990-95 and 1995-2000 (the amounts are averages per household per year)

Sl. No.	Purposes	1990-95	95-2000	Simple growth rate
		Amount in Rs.	Amount in Rs.	Percentage
1	Agriculture including agri-machinery and implements	3158	3892	23.24
2	Industrial loans	633	721	13.90
3	Loans to small business and traders	738	819	10.98
4	Housing loans	1012	1184	17.00
5	Loans for consumer durables	213	257	20.67
6	Educational loans	42	36	-14.29
7	Vehicle loans	180	243	35.00
8	Loans for biogas plants	41	22	-46.34
9	Loans for slaughter tapping	50	75	50.00
	Total	6067	7249	19.48

Source: Derived from primary source

Credit Needs and Product Mix Cross-matched

Now it would be attempted to cross-match credit needs of the customers with credit products offered by banks. This was done in two stages. At the first stage, the availability of products to address the different needs was looked into. At the second stage, the changes in product intensification in response to the changes in need intensity were studied.

The availability of products

At the first instance, it might be appreciated that the banks had loan products for meeting most of the major credit needs of the sample in both the periods considered for the study (see Tables 4.19. and 4.20. for all statistical details in this regard, unless otherwise specified). However, two major needs, namely education of the children and purchase of land were either underplayed or not catered to by the banks in both the periods. These two needs together constituted 19.11 per cent of the total needs in volume during the period up to 1995 and had increased to 25.28 per cent in the period after 1995. Though some loan products were available for meeting the educational needs of the people, banks heavily underplayed this need as they lent only 0.69 per cent of their total lending in the first period against a need that constituted 14.38 per cent of the total needs of the sample. In the second period the need rose up to 20.58 per cent of the total need of the sample but the loans to that got reduced to 0.30 per cent of the total loans to the sample. In the case of need for purchase of land, no institutional lender gave any loan to any respondent. These two, especially education was, probably, the one sector where the lenders' urgent marketing efforts were to fall. It might be desirable to go for product modification or new product addition in this case.

Another important point emerged from the comparison was that when four major types of loans, namely loans to agriculture, industry, trade and small business, and housing together constituted more than 91 per cent of the total loans to the sample in both the periods, the needs that they addressed to constituted only 67.39 per cent of the total needs of the sample in the first period and 60.63 per cent in the second period (statistics were derived from Tables 4.20. and 4.19. respectively). It meant that banks had not been either catering to or emphasising on loan products that could have addressed those needs that constituted more than 30 per cent and almost 40 per cent of the total needs in the first and second periods respectively. Looked at from product mix angle, this might be considered as a marketing lapse from the part of banks. Further evidence could be cited to support this contention.

It might be noted from Table 4.21. that the agreement index value on the statement "in your opinion, the institutional agencies in the area do have sufficient loan products to meet all your credit needs" was only 49.08. As per the methodology used for constructing the index (see the relevant section in the chapter 'Materials and Methods' for details), even if all the respondents took the neutral option as 'neither agree nor disagree' to the statement, the index value would have been

50. Therefore, any value below 50 shows only poor agreement. A poor agreement in this case meant that the respondents might have experienced difficulties in obtaining loans from institutional agencies for meeting some of their needs. If generalized, in the experience of respondents, product mix had to be improved by banks to better address rural credit needs.

However, the poor agreement might not necessarily mean that the banks had not been having sufficient loan products to address the needs. It could, as well, be a problem of marketing emphasis or promotion. The agreement index value on the statement "you are fully aware of the different loan products available with the banks to meet your different credit needs" was also low at 54.61 (see Table 4.21.); hence poor agreement. This implied either lack of marketing emphasis or ineffective promotion from the part of banks on those products that remained beyond the knowledge of credit consumers. If products so remained beyond the knowledge of consumers, it was as good as not having the products. Hence, practically the product availability was not that satisfactory to the credit consumers. This further highlighted the importance of improving the banks' product mix or increasing the marketing emphasis including promotion on certain products.

Table 4.21. Agreement index on product availability and awareness

Sl. No.	Statements	Score	Agreement index value
1	In your opinion the institutional agencies in the area have sufficient loan products to meet all your needs	479	49.08
2	You are fully aware of the different loan products available with banks to meet your different credit needs	533	54.61
	Maximum obtainable	976	100.00

Source: Derived from primary source

Product intensification in response to need intensity

It was already referred earlier in this report that theoretically, it would be ideal to have changes in product intensification in accordance with the changes in need intensity. How far the banks had appreciated this marketing philosophy was the issue studied here. This was, probably, a sticky area of bank marketing where marketing research could be of considerable help to banks.

It was already stated that the banks continued to focus on four major types of loans namely loans to agriculture, industry, trade and small business, and housing, which together constituted more than 91 per cent (derived from Table 4.20.) of the total loans to the sample in both the periods considered for analysis. However, the needs that these products addressed to were 67.39 per cent of the total needs in the first period. This share came down to 60.63 per cent in the second period (statistics were derived from Table 4.19.). It meant that the needs followed a changing pattern but the product followed an unchanging pattern. This itself might give one a rough hint about a mismatch between need intensity and product intensification. This would be more apparent and clear if the need intensity measures were compared with product intensification measures, especially in some cases.

The need intensity measures and product intensification measures were given in Table 4.19. and Table 4.20. respectively. There were instances when the banks increased their emphasis on certain products, as the corresponding need intensity sharply declined. This was particularly true for their agricultural lending as also for loans to industry. When the need intensity for agricultural investment declined by 11.37 per cent, the product intensification addressed to agricultural needs heavily increased by 23.24 per cent. Similarly, when the need intensity for industrial investment came down by 12.48 per cent, the product intensification in this regard went up by 13.90 per cent.

More interesting were the cases of needs like education, and purchase of land. Need for the children's education was the second highest in magnitude in both the periods considered for the study. Against this, loans offered by banks to meet this need were too negligible in both the periods. The need marked a high degree of need intensity (as high as 68.06 per cent; the highest growth rate among all needs) from first period to the second period but corresponding product intensification declined by 12.90 per cent. Similarly, purchase of land had been a need with an average magnitude in the first period itself, the need intensity of which had increased by 16.73 per cent from the first period to the second period. Despite that, none of the banks bothered to offer any loans to this purpose during the study period. Credit need for conducting marriages and other ceremonies also had a similar fate.

Need intensity and product intensification had some correspondence in case of need categories like investment in trade and small business, purchase of consumer durables, housing, purchase of vehicle etc. Among these needs, purchase of vehicle got a better deal from the part of banks in the sense that the product intensification rate was slightly higher than the need intensification rate. In all other cases the product intensification was at a lesser pace than the growth in need intensity.

In brief, it could be concluded that there was high degree of mismatch between the need intensity and product intensification in the rural credit market studied here. Banks continued their priority to certain needs and continued neglecting certain others, remaining oblivious to the changes in the need intensity. This might not be a welcome trend and would not appear apparently as a problem area, especially in the short-run. It might not apparently appear as a problem, mainly because of two reasons. One was that there could be unmet portion of need magnitude in the already focused need categories, which might offer additional market to the lenders. This could be genuine and might not be dangerous. The second reason was that there could be pseudo demand from the already focused need categories as the actual purposes of borrowal would be different from the expressed purposes, say the tendency to divert the loans. This might turn to be dangerous and capable of jeopardizing the whole system.

If it was read together with the previous discussion, in this report, on diversion of loans, better insights could be gained. There it was seen that diversion was high in case of crop loans, loans for land development, loans for smoke house and industrial loans. The amounts diverted were as high as 61.19 per cent, 42.02 per cent, 28.62 per cent and 33.33 per cent respectively in these categories. Similarly, the percentages of diverted borrowers to the total borrowers in these categories were 85.96 per cent, 75.47 per cent, 33.33 per cent and 66.67 per cent respectively (see Table 4.11). It might also be noted that amounts were diverted mostly from those needs whose need intensity was on the decline (see Table 4.19.) like investment in agriculture, investment in industry etc. When banks' products and marketing emphasis were more oriented to needs with declining intensity, borrowers might have found it convenient to divert the loans taken for these purposes to their real purposes. Hence, this heavy diversion could as well be a result of wrong priorities being attached by banks to their product mix and marketing emphasis.

This was further evident from the profile of needs for which the respondents had used the diverted amounts; the details of which were given in Table 4.22. The main purposes for which the diverted amount had been used in both the periods were investment in trade and small business (18.99% and 21.82% respectively), marriage and other ceremonies (16.42% and 17.57% respectively), education of children (11.52% and 15.91% respectively), housing (11.66% and 12.03% respectively) and purchase of land (8.81% and 10.16% respectively). Banks almost totally neglected all these needs except the first one while designing their product mix (see Table 4.20.). This left the customers with no other option but to divert funds.

Table 4.22. The percentage distribution of total diverted amount among different purposes.

Sl. No.	Purposes	1990-1995	1995-2000
1	Trade and small business	18.99	21.82
2	Purchase of land	8.81	10.16
3	Construction and renovation of houses	11.66	12.03
4	Purchase of consumer durables	2.02	2.63
5	Purchase of vehicle	2.30	3.16
6	Education	11.52	15.91
7	Securing job	4.52	3.22
8	Major health care	5.33	5.99
9	Marriage and other ceremonies	16.42	17.57
10	Other purposes	18.43	7.51
	Total	100.00	100.00

Source: Derived from primary source

It might also be noted from Table 4.22 that there had been some increase in the percentage of diverted amounts used for the said purposes from the first period to the second period. This had some correspondence with the increase in the relevant need intensity. In case of all the said needs, the need intensity had gone up (see Table 4.19), which might have made the borrowers divert more funds for these purposes. The highest increase in the need intensity was in education and highest percentage point increase in the diverted amount used was also for the same need. Similarly, the need intensity increased considerably in trade and small business investment; the product intensification on this need was only at a lower pace compared with the need intensity; hence, the use of diverted amount happened to increase by a higher percentage point from the first period to the second period in this case also. Hence, it was clear that the use of diverted amount would increase in accordance with the growth of need intensity if left unaddressed with matching product intensification.

Summarizing the whole discussion, it could be said that the banks attached priorities to certain credit needs and neglected certain others. This prioritization and neglect were in divergence with customers' priorities and their need magnitudes. Banks continued to do the same even when the need intensity of the prioritized needs had actually come down and neglected needs had actually gone up (the reference was about the needs prioritized and neglected by banks and not by customers). This tempted and compelled the customers to borrow for prioritized purposes and to divert the amounts for the neglected purposes. Maximum diversion of amounts was from those needs whose need intensity was on the decline. Maximum usage of the diverted amount was in those needs whose need intensity was on the increase. Hence, it could be concluded that loan diversion would increase if need assessment was not appropriately made and it would further aggravate if product intensification were in divergence with the need intensity.

The demerits of mismatch between need intensity and product intensification

Two important demerits could be cited for the product intensification being in mismatch with the need intensity. One was related to the problem of diversion and the other was about loosing potential credit business. Both the issues would be discussed here one after the other.

It was already stated that the credit diversion would be dangerous and detrimental to the interest of banks. Upon diversion, the chances of default might increase. When a bank would give a loan to a customer, the income generation required for repayment, the repayment schedule etc. would be calculated based on the purpose for which the loan was expected to be used. If it was not used for that purpose, the whole calculations of the bank would be defeated and it might lead to default. The previous discussion, in this report, on the reasons for default showed that two important reasons were 'shortfall in actual revenue from expected revenue' and 'repayment schedule did not correspond to the income generation' (see Table 4.17). The root cause for these reasons might be lying in loan diversion being practiced by the respondents. Hence, it might be appreciated that mismatch between product intensification and need intensity would lead to loan diversion and that, in turn, would result in default.

It appeared that banks could have brought down this loan diversion and consequent default, if appropriate product mix and product emphasis were being made. In order to test this respondents were given two statements and their agreement towards them were obtained. The statements and the respective agreement index values could be seen in Table 4.23. The first statement was 'you would have availed of only that loan if there was a loan scheme available with the banks for meeting your real need'. On this, the respondents showed a moderate level of agreement. The index value was 57.17. Since the value was only moderate it was not quite sure that the diversion would have come down.

However, it was more likely that banks could have produced better results, if a slightly different type of product was offered. The second statement was in this respect. The statement - 'if untied loans, which could be used for any purpose, were available with the banks, you would have been very much interested in' – obtained a high index value of 73.67. It implied two points. One was that the respondents had been feeling the need for new products. The second point was that in case of such loans, before sanctioning the loans, banks might be able to make sufficient cushion and caution for ensuring prompt repayment, as they would be aware that the loans would be used for many purposes.

Hence, the chances of default could be reduced to that extent. Also remember that among the reasons for loan diversion, an important one was that 'the purpose of availing of a loan was not just one, but many' (see Table 4.14.). For customers with such needs, the product category envisaged above would be useful and diversion tendency might come down. It all suggested that product intensification should be in accordance with the need intensity; otherwise loan diversion and consequent default might increase.

Table 4.23. Agreement index on product choice

Sl. No.	Statements	Score	Agreement index value
1	You would have availed of only that loan if there was a loan scheme available with the banks for meeting your real need	558	57.17
2	If untied loans, which could be used for any purpose, were available with the banks, you would have been very much interested in	719	73.67
	Maximum obtainable	976	100.00

Source: Derived from primary source

The second demerit, as mentioned earlier, was about the possibility of loosing potential customers. In the absence of products suited to their needs, it was likely that some customers might keep away from credit market. Normally they would not be ready to take credit for one purpose and use it for another. This would be an attractive potential lot, to whom lending credit would be less risky. The presence of such a group was felt in the sample drawn for this study as well. Here, it would be worth recalling that 18.67 per cent (see Table 4.1.) of the total sample had not borrowed from any source during the study period. 'Lack of source attraction' was a main reason why they did not do so (see Table 4.3). Also note that mainly government servants and professionals constituted this group (see Table 4.8.). Such occupational classes were known for their decent dealing and prompt repayment. Credit marketers, often, considered them as prime customers. Nevertheless, the marketing strategy required to make them customers, indeed, would include a need sensitive product mix, a change in product emphasis and in short, product modification and development.

The foregoing discussion, covering different aspects of credit marketing with special reference to product mix vis-à-vis rural credit needs revealed that there was a mismatch between rural credit needs and products offered to address the needs. This mismatch was found widening over the years. This was primarily because of the reason that the need intensity had been changing over the years but the banks might have failed to appreciate the same in their product intensification efforts.

Credit required for the children's education was a prominent category of need, which did not come to any serious notice of the banks.

Money required for purchase of land, conducting ceremonies like marriages etc. could also be considered for converting them into marketable credit products. Also, higher emphasis might be given to trade and small business as it was found to be an important emerging area. Further, it appeared that emphasis could slightly be reduced on traditional areas like agriculture and industry. Besides, product ideas like 'untied loans' – loans that could be used for any purpose – might be considered while redesigning the product mix.

Customer Segmentation by Credit Marketers

Though a well thought of and meticulously planned customer segmentation was not resorted to by any of the three credit marketers considered for the study, over the years the practice might have made some customer polarization to certain agencies. This might be the result of the nature of products offered, marketing strategies adopted, need patterns of the segments etc. To have a better insight on that, occupation based and income based segments served by each source were analysed here under.

Occupational Segments Served by Credit Marketers

Details of occupation-based segments being served by different agencies were given in Table 4.24. It could be seen from the table that there was a high degree of similarity between co-operatives and commercial banks in the occupational distribution of their clientele. Both the organizations focused more on organized private sector employees, farmers and businessmen in their efforts to market credit. The occupational distribution of borrowers from commercial banks showed that 24.63 per cent of its customers were businessmen which was the single largest group served by the bank. The second in the line were organized private sector employees with 23.13 per cent and the third, farmers with 19.40 per cent.

Table 4.24. Occupation-wise consumer segments being served by different sources of credit

Sl. No.	Occupation class	Co-operatives	Commercial banks	Informal sector
1	Government servants	8.97	11.94	-
2	Professionals	0.64	6.71	-
3	Organized private sector employees	27.56	23.13	7.36
4	Farmers	23.72	19.40	5.88
5	Businessmen	23.08	24.63	20.59
6	Labourers	16.03	14.18	66.18
	Total	100	100	100

Source: Derived from Primary source

* The figures indicate how much percentage of borrowers being served by a particular source belonged to a particular occupational class

Against this, the largest single customer groups served by co-operatives was organized private sector employees with 27.56 per cent of the total customers served by them, followed by farmers (23.72) and businessmen 23.08. When labourers constituted 16.03 per cent of customers in co-operatives, they formed 14.18 per cent of the customers in commercial banks. Government servants, and professionals, though were least risky customer segments in term of repayment, together constituted only 9.61 per cent in co-operatives, whereas the share was 18.65 per cent in commercial banks.

A totally different clientele distribution could be seen in case of informal sector. As high as 66.18 per cent of its customers were labourers. Another 20.59 per cent were businessmen. When it could serve a negligible number of farmers and organized private sector employees, it could not bring under its fold even a single government servant or professional.

In brief, it could be concluded that there was a high degree of homogeneity in the customer segments served by institutional lenders. Around 75 per cent of the customers in both the institutional agencies comprised of organized private sector employees, farmers and businessmen. Compared with co-operatives commercial banks had a higher say in case of government servants and professionals. In contrast, informal sector served mainly to a market niche called labourers, the class which was overlooked and under played by its institutional counterparts. The other major segment served by them was businessmen. It was also note worthy that little over 20 per cent of the customers in all the institutions were businessmen and that was the one segment served almost homogeneously by all the credit marketers.

Income based Segmentation by Credit Marketers

As was already mentioned, market segments were rather emerged than probably developed by the credit marketers through any purposeful strategy initiation. However, the influence of some policy decisions and programme initiatives on such an emergence was not negated. Even otherwise, over the years, it was likely that a pattern would evolve and the organizations would automatically be encouraged to follow that. In order to find out the income based distribution of borrowers in the credit marketing agencies, the borrowers were classified and grouped on the basis of their income levels, and sources of borrowal. The number of customers belonging to each income class served by a particular source was taken as a percentage of the total number of customers served by that source. The results were presented in Table 4.25.

Some definite patterns of customer segmentation could be seen from Table 4.25. When the occupational distribution of customers showed a similarity between co-operatives and commercial banks, the income-based distribution was more a matter of dissimilarities than similarities between them. More than 50 per cent of the customers in co-operatives were those who had a monthly income of below Rs.4000. Those below this level in commercial banks were only 23.88 per cent of its customers that too without a single one from the bellow Rs.2000 income category. Hence, a customer segment that could be called as lower income category was mostly underplayed by commercial banks and immensely catered to by co-operatives. Those who were having an income level above Rs.6000 per months, which could be qualified as the higher income group in the sample, was the most fascinating segment as far as commercial banks were concerned. As much as 38.06 per cent of their customers belonged to this group. Against this, only 12.18 per cent of the co-operatives' customers belonged to this segment; another point of dissimilarity between them.

Both the institutions gave prominence to middle income segment. When co-operatives had 36.54 per cent of their customers from this group, commercial banks had 38.06 per cent of their customers from the group. This was the only one point of similarity between the two institutional lenders.

Table 4.25. Income-wise Consumer segments being served by different sources of credit

Sl. No.	Income categories	Co-operatives	Commercial banks	Informal sector
1	Monthly income below Rs.2000	7.05	-	29.41
2	Rs.2000 to Rs.4000	44.23	23.88	32.35
3	Rs.4000 to Rs.6000	36.54	38.06	23.53
4	Rs.6000 to Rs.8000	6.41	18.66	4.41
5	Rs.8000 and above	5.77	19.40	10.29
	Total	100	100	100

Source: Derived from Primary source

* The figures indicate how much percentage of borrowers being served by a particular source belonged to a particular income class.

It was seen earlier that 66.18 per cent of customers in informal sector were labourers (see Table 4.24). Thus keeping the tradition of catering to the less privileged sections of the society, informal agencies marketed themselves well to the lower income groups. It might not necessarily be read fully in positive sense; it could as well be a case of economic exploitation with higher rate of interest, as the institutional agencies could not well accommodate this segment. Anyway as high as 61.76 per cent of its customers belonged to an income class of below

Rs.4000 per month. Out of this, 29.41 per cent belonged to the least income class of a monthly income below Rs.2000. Another 23.53 per cent of its customers were from the middle-income category. It could draw 10.29 per cent of its customers from the high-income segment as well.

To sum up, when co-operatives and informal sector defined lower income segments as one of their main target markets, commercial banks focused their strategy more on to higher income segments. However, the middle-income segment was a notable priority for all the three credit marketers referred here.

Impediments in New Product Development and Product Modification

It was clear from the analysis of the literature as also from the foregoing discussion of the collected data that some amount of product modification and product addition was required in the present context of rural credit marketing. Hence here an enquiry was further attempted to identify the impediments in product development and product modification, if there was any.

For this purpose the officers of the respondent banks were consulted with a flexibly structured questionnaire sent through mail.

There were nine branch managers of commercial banks, one branch manager of an RRB and three secretaries of primary agricultural credit societies in the sample. Only six branch managers (out of the total ten) and two secretaries (out of the total three) had responded to the researcher's request. Since the number of respondents was too small, the collected data were not subjected to any statistical processing. Rather, the contents were logically interpreted. Such a discussion of the contents was made below.

The idea of new product development did not go well with the respondents. Majority expressed an impression that there were fairly sufficient loan products with the banks to meet the credit needs of the people. Product addition was not considered as any imperative. However, many of them expressed their inability to think in such terms for want of time and marketing visualization skills. Despite that, many of them favoured the idea of product modifications.

By product modification they mainly meant simplification of procedures, and strengthening of legal authority for recovery when the loans turned default. In this context, they heavily underplayed their role and attributed that only governmental initiatives can bring forth a change.

Quite a few of them held the view that even in the existing circumstances, in deserving cases, they were able to cater to any need of the borrower by a bit of confidential dealings. This, in a way, was encouraging loan diversion but without the ill effect of diversion. It would be so because the banker had confidence in the borrower and was fully aware that it was not the income going to be generated from the investment of this money, which would ensure repayment. The borrower would repay the loan from other sources of income; the banker had reasons to believe. In such cases, they had been generous in granting loans for any purpose of the borrower. Hence, such rare cases could be considered as attempts to modify the products so as to make it more attuned to the borrowers' needs.

The major impediment in product development and modification was that the need for such a change was not fully felt to the bankers. Nonetheless, they pointed out various impediments. The impediments so identified were grouped into certain sets and presented below.

The first set of impediments was those emanating from the fear in taking initiative. Many of managers were found to be worried as to how the higher-ups would react to it, whether the staff would co-operate with them, what would be the consequences if the initiative failed to produce the desired results etc. This fear often made them confine themselves to their routine procedures and activities than taking a marketing initiative.

Another set of impediments came from the role identity that the managers and secretaries defined for themselves. Some of them considered themselves as implementers than initiators. Some others felt that these were issues beyond the purview of a branch manager. Quite others had an impression that these were issues in the domain of consultants and not of bankers. Hence, they restricted themselves to the roles they defined for themselves.

Yet another set of impediments was related to lack of awareness and skills among mangers and secretaries. Many of them admitted that product development and modification required visualization skills, financial and economic analysis skills, commercial and legal viability appraisal skills etc., which they found lacking in them.

The last set of impediments was those connected with the internal and external legal framework with which the mangers and secretaries had to operate. Some of them felt the lack of sufficient authority delegation to them in this and many other regards. Some others pointed out that the targets and priorities defined by the head office, NABARD and RBI as also by the government restricted them from taking up new and innovative initiatives. Also pointed out were the restrictive provisions of various acts like Contract Act, Negotiable Instruments Act etc. preventing them from product modification and development initiatives.

On top of all this, the tight work schedule, stress and strain of job etc. acted as impediments in this regard.

SUMMARY OF FINDINGS AND CONCLUSION

SUMMARY OF FINDINGS AND CONCLUSION

Marketing concept was of recent origin in Indian banking world. Here the first phase of adoption of this concept was more oriented to deposit marketing. This orientation dominated the scene even today. However, in the 1980's negligible experiments took place in credit marketing also. The importance of credit marketing was felt more in the 1990's thanks to new economic policies, opening up of financial sector, and disintermediation of banks. Consequent spurt in competition between different banks, and between banks and non-banking financial institutions made the issue of credit marketing a hot one towards the end of 1990's.

The literature on Indian bank marketing also, showed a correspondence to the industry's trends. Started mainly in the 1980's, the academic attention on credit marketing was on the increase in the 1990's. The studies in the 1980's identified four important reasons for banks to adopt modern marketing concept in their credit business. The reasons were problems of excess fund with the banks, banking infrastructure falling idle, declining satisfaction in customers' mind on bank credit, and disintermediation of banks. Against this, the studies in the 1990's projected increasing competition as the most compelling reason for why the banks should go the marketing way.

When the studies in the 1980's were found emphasising on the importance of credit, the studies in the 1990's focused also on the methodological aspects of how credit marketing could be made effective. Some had suggested procedural simplification and product modification, and some others suggested need identification and new product development as methodologies for achieving good credit marketing results.

In the specific context of Kerala, studies and experiences showed that a very high degree of focus should be there on credit marketing from the part of Kerala banks. The low and falling credit deposit ratio of commercial banks in the state as also the huge excess fund accumulating in the hands co-operatives made it imperative for them to intensify their credit marketing efforts. In the light of increasing importance of credit marketing in the state, as also the changing credit need profile of the people; the present study took up the following specific objectives.

1. To examine the rural credit marketing by different agencies with special reference to product mix vis-à-vis rural credit needs.
2. To study the consumer behaviour with respect to:

   (a) Institutional choice for credit

   (b) Credit use pattern and

(c) Repayment of credit, and

3. To identify the impediments in new product development an product mix modifications.

In order to realize these objectives 300 individual household and 13 institutional bankers were consulted for gathering primary data The data so collected were analysed with the help of simple statistica and econometric techniques. Since a portion of the data was o consumer behaviour, hence qualitative in nature, by using ranking an scoring techniques, priority indices and agreement indices were worke out as analytical tools in such cases. The findings, thus arrived at, wer summarised under major heads down the pages.

Institutional choice for credit

1. Around 20 per cent of the people enjoyed being debt free, henc opted to keep away from credit market.
2. The institutional choice of Kerala borrowers was more in favour c institutional agencies compared with informal agencies. Howeve the importance of informal sector might not be overlooked as the could market themselves to 27.87 per cent of credit consumers.
3. Hesitation in or fear about being indebted was the major reason fc non-borrowers to do so. Because of the psychological undertone c

this reason, considerable attitudinal changes might have to be made for marketing credit to them.

4 Low rate of interest was the most important factor that attracted customers to co-operatives. Hence, from the marketing point of view, co-operatives might be able to project their interest rate attraction as a unique selling proposition. Another important factor that attracted customers was 'there were people in the co-operative concerned to help the borrower concerned'. If it implied genuine relationship marketing strategy, could be proceeded on.

5 In the matters of speedy delivery of loan and procedural formalities to be followed, consumers had not rated co-operatives as any good organization. Similarly, convenience of repayment schedule and behaviour of the staff were not attractive features in co-operatives.

6 Co-operatives and commercial banks stood on similar footing on the product and marketing features like speedy delivery, easy procedural formalities, convenience of repayment schedule etc. However, the behaviour of the staff was found to be more attractive in commercial banks than in co-operatives. This could be considered as a sign of an organized and professional relationship marketing gaining ground in commercial banks.

7 Speedy delivery and easy procedural formalities were two important factors attracted customers to informal sector.

8 There were certain unique products with the informal sector that the institutional sector did not have. This was another important factor that attracted customers to them. Product uniqueness was not at all felt to the customers in co-operative and commercial banks but was seriously felt to the customers in the informal sector.

9 It could be generalised that the co-operatives and commercial banks performed similarly in their credit marketing efforts but a totally different strategy was adopted by the informal sector. When the informal sector players focused on product mix (easy procedural formalities, uniqueness of products and convenient repayment schedule) and distribution mix (speedy delivery of loans) in their marketing strategy, the institutional credit marketers focused more on price mix (low rate of interest) and promotion mix (relationship marketing to a minimal level) in their strategy to attract borrowers.

10 From the consumer behaviour angle, it could be said that there were different consumer classes or segments in the credit market with different priorities depending upon the need that they would like to 'satisfy. The learning point from the consumer behaviour exhibited by the respondents is that there is still prominence to price mix in the rural credit market, even then, other mixes are also important to attract customers.

11 More than 50 per cent of government servants belonged to the non-borrower category. All the remaining members in the group borrowed from either co-operative bank or commercial bank or both. They chose co-operative banks and commercial banks almost equally, though their preference was slightly higher in favour of commercial banks.

12 Like the government servants, a good number of professionals remained non-borrowers. However, their preference was markedly higher for commercial banks than co-operatives. Interestingly, none of the borrowers belonging to both these groups borrowed any money from informal lenders.

13 In the case of organized private sector employees, unlike professionals, the preference was more for co-operatives than to the other institutional lender.

14 More organized occupational classes having a stable income, namely government servants, professionals and organized private sector employees depended almost exclusively on institutional sources. From these three classes only a few belonging to the organized private sector employees category borrowed from informal sources. Whereas, less privileged a class like labourers depended mostly on informal sources; remember that this was the largest single class of borrowers in the sample.

15 Government servants, professionals and farmers were very conservative about availing of credit. Substantial number of them kept away from borrowing as such. In sharp contrast, a very high majority of members in all the other occupational groups borrowed from one or more sources or say they were falling ready customers to credit marketers.

16 The lower income groups, the numerical strength of which was high, were more prone to credit consumption and hence would be a potential customer segment.

17 Those in the income group of Rs.4000 to Rs.6000 had depended mostly on institutional agencies. They had not discriminated much between the two institutional agencies, though there had been a slightly higher preference towards co-operatives.

18 The lower income group, in general, had chosen the informal lenders more while the higher income group had preferred to institutional lenders. Among institutional lenders, when the middle-income group had preferred to co-operatives more, the high-income group had opted more for commercial banks.

Credit Use Pattern

19 The loan amounts were not appropriately used for the expressed purpose by the borrowers. There were considerable cases of loan diversion.

20 Amounts from agricultural loans were diverted considerably. The percentage of borrowers in the total agricultural borrowers who diverted loans was also high. However, among the agricultural purposes, crop loans and loans for land development were the major purposes from which substantial diversion was made. Agricultural purposes together constituted a major purpose of borrowal and this alone had amounted to more than 50 per cent of the total borrowal. Hence the incidence of diversion in the total borrowal was high, as there had been a high degree of diversion in crop loans and loans for land development.

21 Other major purposes from which amounts had been diverted were industrial loans, house renovation loans, and loans to small business and traders. Diversion was not to a serious magnitude in other types of loans, and interestingly, no amount was diverted by any borrower from vehicle loans.

22 All occupational classes had diverted amounts from crop loan and there was no sharp divide between the occupational classes in this regard. However, when around 90 per cent of businessmen, labourers and organized private sector employees diverted crop loans only about 75 per cent of the government servants, professionals and farmers diverted the same.

23 In case of crop loans, the first two income strata, say the lower income group, diverted around 55 per cent of the amount and it was

diverted by around 90 per cent of the borrowers, who belonged to this category. Only around 78 per cent of the other three categories (which could be considered as middle income and higher income categories) diverted crop loans.

24 It could be generalized regarding diversion of crop loans that though the percentage number of borrowers who diverted loans was high in the low-income group; the percentage of amount diverted was less in their case. Just reverse was the case of high-income groups. However, it was the middle-income group who diverted the highest amount among all the groups.

25 Similar to that of crop loans, in case of loans for land development also, the middle and high income groups had diverted higher percentage of amount than the lower income group.

26 The most important reason for loan diversion was that the purpose of one expecting to avail of a loan was not just one but many. It meant that a substantial number of borrowers were predetermined to divert the loans. Hence diversion was not at all accidental or unexpected in most of the cases.

27 The second important reason for loan diversion was that the rate of interest would be higher for the loans for real purpose. It meant that the borrowers willfully opted a particular type of loan even when loans were available for their real purpose with an ulterior motive of

taking the price advantage on their credit purchase. In that case also, diversion was predetermined. However, nonexistence of credit for the real purpose was also an important reason at least in some cases.

Repayment Behaviour

28 Borrowers from the co-operatives were the highest defaulters when compared with borrowers from commercial banks and informal sector. Perhaps, this could be because of the undue help given to them by the institution concerned in the name of relationship marketing.

29 Among the total defaulters more than 50 per cent were those who borrowed from more than one source. Hence it could be doubted that whether there would be a high probability for default from the part of those who would be borrowing from more than one source.

30 Borrowal in amount from commercial banks was higher than that from co-operative banks. Despite that the default rate was lower in commercial banks compared with the other institutional counterpart.

31 The percentage of amount defaulted to the total borrowal was lowest in informal sector. Hence, when compared with institutional sector, the repayment behaviour was found to have favoured the informal sector. The institutional lenders would have much to learn from the informal sector in matters like recovery. Also,

cooperatives might have to adopt some of the practices of commercial banks in this regard.

32 Fear about debt burden increasing was the major reason for the prompt payers to do so. The fear about violating the contract with the bank or lender was the other major reason. Both these reasons revealed that the prompt repayment of a loan was primarily a self – driven act.

33 Unexpected losses and difficulties occurred in personal life, and shortfall in revenue than expected were the two important reasons ranked by defaulters for their failure to pay in time. Hence it was to be believed that borrowers were mostly non-willful. However, the presence of willful defaulters was also established.

34 The potential loanees might be screened based on the nature of other loans that they already had. If they had high interest loans, it was more likely that they might divert the income for repaying the high interest loan, even if the income were generated from the newly given loan. This might be especially relevant while dealing with customers having obligation in informal sector.

35 It appeared that a low rate of interest might not be necessarily good, if looked at from the angle of repayment behaviour. However, without detailed research in this area, nothing concrete could be said about this.

36 A threat of charging heavy penal interest might compel the borrowers to pay in time. Nonetheless, this would not be a very positive tool. It might cause the genuine borrowers to shy away from borrowing itself. Hence, such tools might be adopted only after a detailed enquiry.

37 If the defaulters were personally visited and compelled by the bank authorities, the recovery was likely to increase. This was a prominent tool of the informal sector lenders. Institutional lenders could also think of improving their activities in this regard.

Bankers' Product Mix vis-à-vis Rural credit needs

38 The need intensity on need categories like agriculture and industry had come down over the years during the study period. It meant that their investment in both the sectors had been coming down.

39 Education of children was the one expenditure item that registered the highest need intensity measure. Other major needs marked higher growth rates were purchase of consumer durables, construction of new houses, renovation of houses, investment in trade and small business, purchase of vehicle, and major health care expenses.

40 Though the need intensity for investment in agriculture was on the decline, it remained the most important rural credit need in terms of magnitude during the study period. The next important one was

education of the children. Other major items were renovation of houses, and investment in trade and small business.

41 The agricultural loans, which included crop loans, loans for land development, loans for agricultural implements and machineries etc. was the highest single class of loans offered by banks during both halfs of the study period.

42 Housing loans, which consisted of loans for new construction and loans for renovation, was the second highest. Loans to small business and traders were the third major ones closely followed by industrial loans.

43 In all major categories of loans, product intensification had taken place except in education loan. The highest degree of product intensification was in loans for agricultural purposes and the second in line was housing loans.

44 It might be appreciated that the banks had loan products for meeting most of the major credit needs of the sample in both the periods considered for the study. However, two major needs, namely education of the children and purchase of land were either underplayed or not catered to by the banks in both the periods.

45 Banks had not been either catering to or emphasising on loan products that could have addressed some important needs of the customers, which constituted a substantial portion of the total needs

of the people. Looked at from product mix angle, this might be considered as a marketing lapse from the part of banks.

46 Due to the non-existence of products and/or the problem in marketing emphasis and promotion, practically the product availability was not that satisfactory to the credit consumers. This highlighted the importance of improving the banks' product mix or increasing the marketing emphasis including promotion on certain products.

47 The needs followed a changing pattern but the product followed an unchanging pattern. This hinted to a mismatch between need intensity and product intensification.

48 Even when the need intensity on agricultural and industrial investment came down, banks continued to focus on products addressed to these needs.

49 On requirements like education, purchase of land etc., the need intensity increased considerably, but the banks either reduced the focus on products addressed to these needs or totally neglected them.

50 The inappropriate priorities attributed by the banks led to a situation of increasing loan diversion. Thus the customers started to borrow according to the banks' priorities and diverted the same for their own priorities. This increased the tendency of loan diversion.

51 The amounts diverted were used mainly for meeting needs like the education of children; investment in trade and small business, purchase of land, conducting ceremonies like marriages etc. The need intensity of most of these needs was very high.

52 In short, maximum diversion of amounts was from those needs whose need intensity was on the decline. Maximum usage of the diverted amount was in those needs whose need intensity was on the increase. Hence, it could be concluded that loan diversion would increase if need assessment was not appropriately made and it would further aggravate if product intensification were in divergence with the need intensity.

53 The analysis on product mix vis-à-vis rural credit needs revealed that there was a mismatch between rural credit needs and products offered to address the needs. This mismatch was found widening over the years. This was primarily because of the reason that the need intensity had been changing over the years but the banks might have failed to appreciate the same in their product intensification efforts.

54 Credit required for the children's education was a prominent category of need, which did not come to any serious notice of the banks. Money required for purchase of land, conducting

ceremonies like marriages etc. could also be considered for converting them into marketable credit products.

55 Also, higher emphasis might be given to trade and small business as it was found to be an important emerging area. Further, it appeared that emphasis could slightly be reduced on traditional areas like agriculture and industry.

56 Besides, product ideas like 'untied loans' – loans that could be used for any purpose – might be considered while redesigning the product mix.

Customer Segmentation by Credit Marketers

57 There was a high degree of similarity between co-operatives and commercial banks in the occupational distribution of their clientele. Both the organizations focused more on organized private sector employees, farmers and businessmen in their efforts to market credit.

58 The occupational distribution of borrowers in commercial banks showed that businessmen were the single largest group served by these banks. The second in the line were organized private sector employees. Against this, the largest single customer group served by co-operatives was organized private sector employees, followed by farmers and businessmen.

59 A totally different clientele distribution could be seen in case of informal sector. 66.18 per cent of its customers were labourers. Another 20.59 per cent were businessmen. When it could serve a negligible number of farmers and organized private sector employees, it could not bring under its fold any government servant or professional.

60 There was a high degree of homogenity in the customer segments served by institutional lenders. Around 75 per cent of the customers in both the institutional agencies comprised of organized private sector employees, farmers and businessmen. Compared with co-operatives commercial banks had a higher say in case of government servants and professionals.

61 In contrast, informal sector served mainly to a market niche like labourers - the class that was overlooked and under played by its institutional counterparts. The other major segment served by them was businessmen.

62 It was also note worthy that little over 20 per cent of the customers in all the institutions were businessmen and that is the one segment served almost homogeneously by all the credit marketers.

63 When the occupational distribution of customers showed a similarity between co-operatives and commercial banks, the income based

distribution was more of dissimilarities than similarities between them.

64 When co-operatives and informal sector defined lower income segments as one of their main target markets, commercial banks focused their strategy more on to higher income segments. However, the middle-income segment was a notable priority for all the three credit marketers referred here.

Impediments in New Product Development and Product Mix Modification

65 Certain sets of impediments in new product development came from four main sources namely fear in taking initiative, role identity defined by the managers themselves, lack of awareness and skills, and internal and external legal frame work.

66 Nonetheless, the idea of product development did not go well with bankers though they favoured product modification to some extent.

Conclusion

In the present context, credit marketing assumed considerable importance to banks in Kerala. The inescapable necessity for profitable and sustainable deployment of funds made the banks and other concerned to think in terms of credit marketing. The analysis of the literature revealed that the issue was gaining momentum through out the country, especially in the 90s'. It was in this background that the present study attempted to analyze the rural credit marketing with its emphasis on product mix aspects in relation to rural credit needs.

The institutional choice behaviour of the respondents revealed that there was still prominence to price mix in the rural credit market studied. Even then, other marketing mix elements like product mix, promotion mix etc. were also important to attract customers. Efforts were required from the part of institutional lenders to attract customer segments like labourers, lower-income group etc., it was felt. These were potential segments, which contributed substantial business to the informal sector. The informal sector could attract them by focussing primarily on the product mix features and least on the price mix factor.

The analysis of repayment behaviour brought out that the repayment was primarily a self-driven act. However, the personal interest that the lender took had a strong influence on the recovery performance. That was the major reason why the informal sector could keep the default rate at a very minimal level. Easy availability of a second loan upon prompt repayment of a previous one was, indeed, a motivation for prompt payment. It appeared that low rate of interest, at times, acted as a reason for borrowers to soft-pedal on repayment. This was particularly true in case of those who were having loans simultaneously from different sources at different interest rates. Most often, default was not that willful; hence it would be better to give a room for negotiability in such cases. Nonetheless, presence of willful defaulters was also established. Serious action in such cases would not only improve recovery from them but also ensure prompt payment from others. Further, the reasons for default as also the motivations for prompt payment were identified. Inter alia, they suggested that repayment would improve if credit products offered were matching perfectly with credit needs of the borrowers. If there were mismatches, that would lead to loan diversion and ultimately to poor repayment.

The credit use behaviour, studied in this report, brought out that there was widespread diversion of amounts from the expressed purposes to other purposes by the borrowers. Such loan diversion was heavy in case of most agricultural loans, especially in crop loans and loans for land development. Analysing the reasons for diversion, the study found out that substantial number of borrowers was predetermined to divert the loans. Such predetermination meant that the actual purpose of taking a loan was often different from the expressed purpose. Lack of attractive and suitable credit products for the actual purposes might have been a reason behind the predetermination to divert loans. Absolute nonexistence of credit products for certain category of needs was also cited as a major reason for loan diversion.

Marketing theory always held that the products offered should correspond well with the needs of the customers. Hence, the present study compared the credit products offered by banks with the credit needs of the customers in the relevant market. The comparison revealed that banks attached priorities to certain credit needs and neglected certain others while designing their product mixes. This prioritization and neglect were in divergence with the customers' actual priorities and need magnitudes. Further, in their product intensification efforts also, banks continued the same prioritization and neglect even when the need intensity of the (bank) prioritized needs had actually come down and (bank) neglected needs had actually gone up. Thus, the study revealed that there was a mismatch between rural credit needs and credit products offered to address the needs. This mismatch was found widening over the years. This was primarily because of the reason that the need intensity had been changing over the years but the banks might have failed to appreciate the same in their product intensification efforts.

Customers have responded to this mismatch mainly in four ways. One group had borrowed exclusively for the purposes offered by banks and utilized the amounts for the same purposes. Another group kept away from borrowing itself for want of attractive credit products. A third group went for informal sources that had better matching credit products to offer. More interesting, the fourth group, which was comparatively larger in size, borrowed loan showing the bank prioritized purposes and diverted the amounts for their own priorities. Looked at from a business management angle, the reaction of the last three groups could not be considered as positive and would be detrimental to the business interest of banks. Hence, to make the credit marketing more effective and to increase their market share, banks might have to improve their product mixes in such a way that the products would match well with credit needs of customers defined in the target market.

Credit required for the children's education was a prominent category of need, which did not come to any serious notice of the banks. Money required for purchase of land, conducting ceremonies like marriages etc. could also be considered for designing marketable credit products. Also, higher emphasis might be given to trade and small business as it was found to be an important emerging area. Further, it appeared that emphasis could slightly be reduced on traditional areas like agriculture and industry. Besides, product ideas like 'untied loans' – loans that could be used for any purpose – might be considered for redesigning the product mix. Furthermore, efforts might be taken to sensitize the bank officials about the need for new product development and product mix modification. In this regard, certain branch level impediments like fear in taking initiative, lack of knowledge and skill, restrictive internal and external legal frame work etc. were to be removed.

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APPENDICES

APPENDIX – I

KERALA AGRICULTURAL UNIVERSITY
COLLEGE OF COOPERATION BANKING AND MANAGEMENT
SCHEDULE FOR INTERVIEWING INDIVIDUAL RESPONDENTS

Place:

1. Details about the family members. (Respondent's details should be entered first and then of other family members. Instead of the name of other members only their relationship with the respondent is to be entered in the relevant column. Details of those members who are living as a separate family must not be entered.

SL. NO.	NAME/RELATIONSHIP	AGE	EDUCATION	MAIN OCCUPATION	INCOME FROM M.O.
1					
2					
3					
4					
5					
6					
7					
8					

3. Total land holdings:

4. Details of crops grown:

SL. NO.	CROPS	AREA/NUMBER	STAGE/AGE OF CROP	NET INCOME
1				
2				
3				
4				
5				
6				
7				
8				

5. Details of Bovine and Poultry assets:

Sl. No.	TYPE OF ANIMAL	NUMBER	NET RETURN
1			
2			
3			
4			
5			
6			

6. Other income earning assets:

Sl. No.	ITEM	NUMBER/ AMOUNT	NET RETURN
1			
2			
3			
4			
5			
6			

7. Other non-farm business:

Sl. No.	TYPE OF BUSINESS	VOLUME	NET RETURN
1			
2			
3			
4			
5			
6			

8. Other durable non-income generating assets:

Sl. No.	ITEM	NUMBER/ VOLUME	YEAR OF PURCHASE	PURCHASE COST	PRESENT VALUE
1					
2					
3					
4					
5					
6					
7					
8					

9. Type of house: 1. Thatched, 2. Tiled, 3. Concrete, Size in square feet:

10. Total family expenditure in the year:

11. What were the major financial commitments you had made during the five years period between 1990 and 1995:

Sl. No.	ITEM	VOLUME/ AREA	TOTAL AMOUNT	OWNED	BORROWED	REPAID	OVERDUE	SOURCE
1								
2								
3								
4								
5								
6								
7								
8								

12. What were the major financial commitments you have made during the five years period between 1995 and 2000:

Sl. No.	ITEM	VOLUME/ AREA	TOTAL AMOUNT	OWNED	BORROWED	SOURCE
1						
2						
3						
4						
5						
6						
7						
8						

13. What were the major financial commitments you propose to make during the coming five years period.

Sl. No.	ITEM	VOLUME/ AREA	TOTAL AMOUNT	OWNED	BORROWED	SOURCE
1						
2						
3						
4						
5						
6						
7						
8						

14. What are your plans to make productive investments in the following sectors during the coming five years time?

a) In Agriculture

Sl. No.	PROPOSED INVESTMENT	TOTAL OUTLAY	OWNED	BORROWED	SOURCE
1					
2					
3					
4					
5					

b) In Industry

Sl. No.	PROPOSED INVESTMENT	TOTAL OUTLAY	OWNED	BORROWED	SOURCE
1					
2					
3					
4					
5					

c) In Service Sector

Sl. No.	PROPOSED INVESTMENT	TOTAL OUTLAY	OWNED	BORROWED	SOURCE
1					
2					
3					
4					
5					

15. What are the factors preventing you from making productive investment in these sectors, give the factors separately for all the three sectors and rank them according to the order of importance.

Sl. No.	AGRICULTURE FACTORS	Sl. No.	INDUSTRY FACTORS	Sl. No.	SERVICE FACTORS
1		1		1	
2		2		2	
3		4		4	
5		5		5	
6		6		6	
7		7		7	
8		8		8	
9		9		9	
10		10		10	

16. Referring to Q11 and 12, you have said that for the said needs you opted the said banks as the source of credit, why? Rank the reasons in the order of importance. (The reasons should be separately collected for short-term, medium-term, and long term credits)

For Short-term Credit

Sl. No.	PUBLIC SECTOR C.B	PRIVATE SECTOR C.B	RRB	PACAS	MONEY LENDERS
	REASONS	REASONS	REASONS	REASONS	REASONS
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

For Medium-term Credit

Sl. No.	PUBLIC SECTOR C.B	PRIVATE SECTOR C.B	RRB	PACAS	MONEY LENDERS
	REASONS	REASONS	REASONS	REASONS	REASONS
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

For Long-term Credit

Sl. No.	PUBLIC SECTOR C.B	PRIVATE SECTOR C.B	RRB	PACAS	MONEY LENDERS
	REASONS	REASONS	REASONS	REASONS	REASONS
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

17. What are the criteria would you consider in choosing one or other institution as the source for short-term, medium-term and long term credits? Rank them according to the order of importance.

Sl. No.	SHORT-TERM CRITERIA	MEDIUM-TERM CRITERIA	LONG-TERM CRITERIA
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

18. You are of the opinion that the following banks have sufficient loan schemes suitable for meeting your specific credit needs. Make the appropriate entry in the following table from the scale given below:

1. Strongly agree, 2. Agree, 3. No opinion, 4. Disagree, 5. Strongly disagree

Sl. No.	TYPE OF BANKS	SHORT-TERM	MEDIUM-TERM	LONG-TERM
1	Private CB			
2	Public CB			
3	RRB			
4	PACS			
5	ARDB			
6	Money Lenders			

19. If `strongly agree' is not his option for any of the above banks (for Q.18) then, what all improvements are required? Make the appropriate entry from the given options in the following table.

1. Altogether

2. Major changes in the existing products with regard to
   a. rate of interest
   b. security requirements
   c. speed of disbursement
   d. repayment schedule
   e. attitude of the staff
   f. others (specify)

3. Minor modifications in the existing products with regard to
    a. rate of interest
    b. security requirements
    c. speed of disbursement
    d. procedural simplification
    e. repayment schedule
    f. attitude of the staff
    g. others (specify)

4. No changes are required

5. No opinion

Sl. No.	TYPE OF BANKS	SHORT-TERM	MEDIUM-TERM	LONG-TERM
1	Private CB			
2	Public CB			
3	RRB			
4	PACS			
5	ARDB			
6	Money Lenders			

21. From where did you get information about different bank products? Enter the source's code in the following table

a. From the bank concerned upon your purposive visit
b. From the bank concerned when you approached it for some other transactions
c. From your friends who are working in the bank concerned
d. From your friends and relatives (word of mouth)
e. From media advertisements of the concerned bank
f. From the leaflets, pamphlets, posters etc. offered and presented in the bank premises
g. From dealers and marketers of consumer durable etc.
h. From rural development agencies of government
i. From development agencies (voluntary organisations)
j. From other sources (specify)
k. From fellow farmers

Sl. No.	TYPE OF BANKS	SHORT-TERM	MEDIUM-TERM	LONG-TERM
1	Private CB			
2	Public CB			
3	RRB			
4	PACS			
5	ARDB			
6	Money Lenders			

22. You are of the opinion that there are differences in the loan services between banks (make the appropriate entry from the given scale in the following table. Also enter the nature of loans under comparison by using the codes ST - for short-term, MT – for medium-term and LT – for long-term in the appropriate column)

1. Strongly agree, 2. Agree, . No opinion, 4. Disagree, 5. Strongly disagree

Sl. No.	TYPE OF BANKS UNDER COMPARISON	NATURE OF LOAN	SCALE CODE
1			
2			
3			
4			
5			
6			

Also give the striking differences

1.

2.

3.

4.

5.

6.

7.

23. Going back to Q. No.11 and 12, you said that you have availed of loans for the said purposes, what were the purposes you had actually shown in your loan application forms

Sl. No.	Name of Bank from which loan availed	Actual purpose for which the loan is used	Portion of amount used for actual purpose	The purpose shown in the application form	Portion of amount used for purpose applied for
1					
2					
3					
4					
5					
6					
7					

24. What were the other purposes for which you used the remaining portion of each loans? Give the answer quoting the serial number of the relevant loans from the above question.

25. If the actual purpose(s) and the expressed purpose(s) were different and if the actual purpose(s) were major ones, then why couldn't / didn't you obtain loans expressing such purposes? Give the reasons and rank them in the order of importance.

26. What are the specific reasons for loan diversion in your case? Rank the reasons in the order of importance.

27. You would be interested in a loan if it is an untied one (a loan which could be used for any purpose according to the convenience of the borrower). Give your answer in the following scale.

    1. Strongly agree, 2. Agree, 3. No opinion, 4. Disagree, 5. Strongly disagree

28. According to your present level of demand, what would be the volume of loan you would like to enjoy if a bank is ready to give it in the form of an untied loan? The hypothetical interest rate is 18 per cent. If and only if the respondent is not interested in taking the loan at 18 per cent give a reduced offer of 15 per cent.

At 18 per cent:	If the other is not filled, at 15 per cent

29. In case of an untied loan, what all securities you are ready to offer. Rank them according to your order of preference or preparedness.

30. In case of such loans, how would you offer your repayment schedule? (The reference is to his repayment capacity and the number of instalments he is willing to enjoy)

    a. Number of installments :
    b. Amount of installment per month :
    c. Sources of income to be used for this :

31. Going back to Q.No.11 and 12, from each of the said loans you have taken how much have you repaid and how much is over due? (Fill the answers in the columns attached with the said two questions)

32. What were your motivations to make prompt repayment? Rank them according to the order of importance.

33. What according to you are the general motivating factors for a loanee to make prompt repayment? Rank them in the order of importance.

34. What are the reasons that made you to default? Rank them in the order of importance.

35. What according to you are the general reasons why people default in making prompt repayment? Rank them in the order of importance.

36. If you have loans from a Private Money lender and an Institutional bank, you would be inclined to pay off first the money lender.

    1. Strongly agree, 2. Agree, 3. No opinion, 4.Disagree, 5.Strongly disagree

37. If `strongly disagree' is not the response for the above question, why? Rank the reasons according to the order of importance.

38. Your are of the opinion that the way money lenders are collecting back the loans they have disbursed is more effective compared with that of Institutional bankers.

    1. Strongly agree, 2. Agree, 3. No opinion, 4. Disgaree, 5. Strongly disagree

39. What are the major differences between the ways in which the institutional agencies and the money lenders are collecting bank from the loanees? Rank the differences in the order of importance.

40. What are your suggestions to the bankers for improving their recovery performance? Rank them in the order of importance.

41. If you have two identical loans with notable difference in rate of interest, while getting some money you would be tempted to pay off first the one with higher rate of interest.

    1. Strongly agree, 2. Agree, 3. No opinion, 4.Disagree, 5. Strongly disagree

42. On occasions of default, if the banker's policy is to charge progressive or incremental rate of interest (a rate that is increasing with every delay in repayment) you would be prompted to make the repayment somehow.

    1. Strongly agree, 2. Agree, 3. No opinion, 4. Disagree, 5. Strongly disagree

43. If the bankers make frequent visits and compel you to repay, you would be propelled to make repayment faster.

1. Strongly agree, 2. Agree, 3. No opinion, 4. Disagree, 5. Strongly disagree

44. If the government as part of its rural development programme decides to give you Rs.____ (an amount almost equivalent to their annual family income), non-refundable, what would be your priorities in spending that amount. Priorities are to be entered in the order of importance.

45. Offer an amount five times higher than the original amount, and then ask for his priorities again.

46. You are generally hesitant to take a loans from the following sources. Enter the appropriate scale value from the given scale in the following table.

1. Strongly agree, 2. Agree, 3. No opinion, 4.Disagree, 5. Strongly disagree

Sl. No.	TYPE OF BANKS	SHORT-TERM	MEDIUM-TERM	LONG-TERM
1	Private CB			
2	Public CB			
3	RRB			
4	PACS			
5	ARDB			
6	Money Lenders			
7	Friends and Relatives			

APPENDIX – II

Questionnaire (To Bankers)

Credit Marketing in Rural Kerala – Product Mix and Consumer Behaviour Analysis

(1) You feel that product mix modification and new product development are required in your bank to serve the rural customers

(a) Strongly agree (b) Agree (c) No opinion (d) Disagree (e) Strongly disagree

(2) Which are the areas in which you would suggest new product development and give the details of the products if you have any in mind

(3) Which are the products in your opinion required modification and give the details of modifications you think appropriate

(4) What are the benefits that you are expecting from such additions or modifications of product

(5) Do you think that product deletion is required in some cases, if so, give the details

(6) How do you define your role in the process of product addition and modifications. Give the details for addition and modification separately

(7) Do you think that there is much truth in the general belief that borrowing from institutional bankers is a difficult and time consuming task mainly on account of procedural formalities. Kindly comment in detail

(8) How do you define your role in reducing the procedural formalities and time delay

(9) What according to you are the implements in new product development and product modifications in your bank

CREDIT MARKETING IN RURAL KERALA - PRODUCT MIX AND CONSUMER BEHAVIOUR ANALYSIS

By
GEORGE THOMAS

ABSTRACT OF THE THESIS

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Doctor of Philosophy in Rural Marketing Management

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ABSTRACT

The study entitled `Credit Marketing in Rural Kerala - Product Mix and Consumer Behaviour Analysis' was undertaken to examine the rural credit marketing by different agencies with special reference to product mix vis-à-vis rural credit needs; to study the consumer behaviour with respect to institutional choice for credit, credit use pattern, and repayment of credit; and to identify the impediments in new product development and product mix modifications.

The study area was limited to the state of Kerala. By employing a multi-stage random sampling technique 300 households and 13 banks were arrived at as sources of primary data. The data were collected through structured schedules. The study period was 10 years from 1990. In addition to priority indices and agreement indices, other commonly used econometric and statistical tools formed part of methodology for data analysis.

The analysis of the literature revealed that credit marketing was found gaining in prominence especially during the 1990's. Competition was cited as the most compelling reasons for the banks to go the marketing way. To make credit marketing effective, among other things, academicians suggested product modification, procedural simplification, identification of new needs, and new product development. Against this background, our analysis of the collected data revealed the following.

The institutional choice behaviour of the respondents revealed that there was still prominence to price mix in the rural credit market studied. Even then, other marketing mix elements like product mix, promotion mix etc. were also important to attract customers. Efforts were required from the part of

institutional lenders to attract customer segments like labourers, lower-income group etc., it was felt. These were potential segments, which contributed substantial business to the informal sector. The informal sector could attract them by focussing primarily on the product mix features and least on the price mix factor.

The analysis of repayment behaviour brought out that the repayment was primarily a self-driven act. However, the personal interest that the lender took had a strong influence on the recovery performance. That was the major reason why the informal sector could keep the default rate at a very minimal level. Easy availability of a second loan upon prompt repayment of a previous one was, indeed, a motivation for prompt payment. It appeared that low rate of interest, at times, acted as a reason for borrowers to soft-pedal on repayment. This was particularly true in case of those who were having loans simultaneously from different sources at different interest rates. Most often, default was not that willful; hence it would be better to give a room for negotiability in such cases. Nonetheless, presence of willful defaulters was also established. Serious action in such cases would not only improve recovery from them but also ensure prompt payment from others. Further, the reasons for default as also the motivations for prompt payment were identified. Inter alia, they suggested that repayment would improve if credit products offered were matching perfectly with credit needs of the borrowers. If there were mismatches, that would lead to loan diversion and ultimately to poor repayment.

The credit use behaviour, studied in this report, brought out that there was widespread diversion of amounts from the expressed purposes to other purposes by the borrowers. Such loan diversion was heavy in case of most agricultural loans, especially in crop loans and loans for land development. Analysing the reasons for diversion, the study found out that substantial number of borrowers was predetermined to divert the loans. Such predetermination meant that the actual purpose of taking a loan was often different from the expressed purpose. Lack of attractive and suitable credit products for the actual purposes might have been a reason behind the predetermination to divert loans. Absolute nonexistence of credit products for certain category of needs was also cited as a major reason for loan diversion.

Marketing theory always held that the products offered should correspond well with the needs of the customers. Hence, the present study compared the credit products offered by banks with the credit needs of the customers in the relevant market. The comparison revealed that banks attached priorities to certain credit needs and neglected certain others while designing their product mixes. This prioritization and neglect were in divergence with the customers' actual priorities and need magnitudes. Further, in their product intensification efforts also, banks continued the same prioritization and neglect even when the need intensity of the (bank) prioritized needs had actually come down and (bank) neglected needs had actually gone up. Thus, the study revealed that there was a mismatch between rural credit needs and credit products offered to address the needs. This mismatch was found widening over the years. This was primarily because of the reason that the need intensity had been changing over the years but the banks might have failed to appreciate the same in their product intensification efforts.

Customers have responded to this mismatch mainly in four ways. One group had borrowed exclusively for the purposes offered by banks and utilized the amounts for the same purposes. Another group kept away from borrowing itself for want of attractive credit products. A third group went for informal sources that had better matching credit products to offer. More interesting, the fourth group, which was comparatively larger in size, borrowed loan showing the bank prioritized purposes and diverted the amounts for their own priorities. Looked at from a business management angle, the reaction of the last three groups could not be considered as positive and would be detrimental to the business interest of banks. Hence, to make the credit marketing more effective and to increase their market share, banks might have to improve their product mixes in such a way that the products would match well with credit needs of customers defined in the target market.

Credit required for the children's education was a prominent category of need, which did not come to any serious notice of the banks. Money required for purchase of land, conducting ceremonies like marriages etc. could also be considered for designing marketable credit products. Also, higher emphasis might be given to trade and small business as it was found to be an important emerging area. Further, it appeared that emphasis could slightly be reduced on traditional areas like agriculture and industry. Besides, product ideas like 'untied loans' – loans that could be used for any purpose – might be considered for redesigning the product mix. Furthermore, efforts might be taken to sensitize the bank officials about the need for new product development and product mix modification. In this regard, certain branch level impediments like fear in taking initiative, lack of knowledge and skill, restrictive internal and external legal frame work etc. were to be removed.