

Balancing Income and Customer Satisfaction: A Case of Sterling Bank

Girish Mainrai

Chief Manager and Area Manager, Bank of India, Hoshangabad, Madhya Pradesh, India

Abstract

Income of a bank consists of interest income, source of which is loans and non-interest income consisting of all other income apart from interest income. Sale of third-party products (insurance, mutual fund) is a major source of non-interest income as the banks earn fee based income from it. To augment this income banks aggressively market these products. The present case relates to Sterling bank which also pursued this strategy of marketing third party products as it handsomely contributed to its earnings. This aggressive marketing coupled with incentive offered to its staff lead to widespread mis-selling of these products. The management realized that aggressive selling of insurance and mutual fund products was leading to customer dissatisfaction resulting to customer complaints and even legal action by them. The management had a daunting task of balancing earnings and curbing mis-selling of third-party products.

Keywords: Third party products, Non-Interest Income, Mis-selling

Introduction

Mr. Ashok Das General Manager (Customer Excellence) of Sterling bank was reading yet another customer complaint regarding mis-selling of third-party products by bank's staff. The present complaint related to Mr. Om Prakash Gupta, customer of Bahadur Shah Zafar branch of Sterling bank. Mr. Gupta aged 77 years is having pension account with the branch. Mr. Gupta was approached by Mr. Ashish Pandey for canvassing of mutual fund under special login mahotsav organized by the bank. Mr. Pandey convinced Mr. Gupta for investing in a particular mutual fund scheme assuring a return of more than twenty percent considering past performance of the scheme for last five years. Mr. Pandey coaxed Mr. Gupta to prematurely withdraw all his fixed deposits in the bank and invest in this particular scheme. After about six months, Mr. Gupta was in urgent need of money as his wife was hospitalized for a medical emergency. Mr. Gupta wanted to redeem his investment but the value of investment

had eroded by almost thirty-five percent instead of growth of twenty percent as assured by the marketing officer. Mr. Gupta quoted the words of Mr. Pandey in his complaint with regard to the returns as assured by him, for which Mr. Pandey replied "Nobody even God can guarantee returns in a mutual fund scheme and he has to either wait for market conditions to improve or settle for the present value". Mr. Gupta approached the branch manager for resolution of his problem who in turn blamed him for investing in a mutual fund scheme without understanding the nitty gritty of the product. Mr. Gupta had no option left and had to complain to head office of the bank which were

dealt by the customer excellence department headed by Mr. Das. The situation with regard to sale of insurance products was no better which was also plagued by rampant mis-selling.

A brief profile of Sterling bank: Sterling bank is a leading private sector bank established in the year 1972 by a group of six gujrati businessmen in Ahemdabad. It made rapid progress, starting from one branch it went on rapid expansion spree now it has a branch network of over 3500 branches, 3542 to be precise as on 31st march 2017. The went public and was listed on sensx in the year 1982, making a record as its issues was oversubscribed 62 times on account of its brand image and growth potential. Sterling bank has tie ups with eight leading mutual fund companies and one life insurer "Just Life" and with "Supreme General" for non-life insurance. These third-party products are a good source of fee based income contributing handsomely to the non-interest income of the bank as evident from the figures of the bank for last five years.

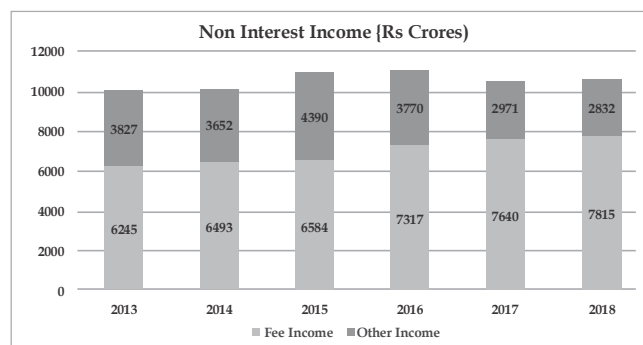


Figure 1 : Contribution of fee-based income in non-interest income of the bank

But the bank was also experiencing customer dissatisfaction with regard to selling of third-party products as there was increase in customer complaints with regard to these products. Customers have approached not only the bank but also Banking Ombudsman, IRDA (Insurance Regulatory and Development Authority) consumer forum and filed suits against the bank throughout the country. The aggressive selling of third-party products is now impacting the image of the bank as evident from findings of recently conducted a customer satisfaction survey through marketing research agency, "Avon Marketing". The agency in its findings reported that 78% of customer surveyed expressed their dissatisfaction with regard to selling of insurance and mutual fund products.

Problem

The bank in order to boost its NII (Non-Interest Income) is aggressively marketing third party products which is well complimented by its channel partners. These companies issued distinct marketing codes to identified marketing staff in each branch and offered incentives according to business generated under the code. The bank along with its third-party partners launch special campaigns like login day, login fortnight to push business volumes. The winners of these campaigns were rewarded with gift vouchers, domestic and foreign trips christened as study tours to avoid action by the regulators. The branches were aggressively monitored by the marketing chief at the regional offices of the bank. The aggressive marketing strategy adopted for sale of these products was leading to mis-selling across the bank as evident from few of instances quoted below.

The marketing staff during disbursement of agriculture loans prompted gullible farmers for investing in ULIP (Unit Linked Insurance policy) as single premium product when they expressed their inability to pay regular premiums. One such farmer, Mr. Kewalram complained to the bank that he was told that the amount is being invested in a bank's fixed deposit, lock in period for which is three years after which he would get good returns. After three years when he approached the branch he was told that the amount was invested in insurance policy which was terminated for nonpayment of regular premiums. When he enquired about the marketing officer who sold that policy,

he was told that he had left the bank and joined somewhere else whereas the said official was transferred to another branch at different centre of the bank.

Some other tactics adopted by the bank's staff was promising guaranteed returns in case of insurance and mutual fund schemes. To substantiate their claims, the staff exhibited the past performance to lure potential customers.

The customer profile data of the bank's customers was being shared with third party product partners, the staff of who called the customers on behalf of the bank. Data like average balance, salary details, employment details, address, mobile number etc. were passed on to channel partner employees for targeting potential customers.

The marketing staff of the bank and its tie-up partners ignored customer profile while selling these products. To prove a point, in present complaint of Mr. Om Prakash Gupta he was offered 100% equity ignoring his risk profile. In other instances, age, risk profile, investment objectives were ignored for investment in high incentive and according to promotional campaigns for particular products.

The other method adopted by the bank's staff was making subscription in third party products as prerequisite for sanction of loans to customers. The staff astutely assessed loan eligibility less than the customer's requirement and when the customers insisted for higher amount, the staff use to propose this condition of purchasing these products. The rationale for this as explained to customers was that it is a measure of strengthening the credit proposal for sanctioning higher amount than the eligible amount which in fact was a fallacy. Another related method was in case of issuing lockers facility to customers, subscription of third-party products was made mandatory. When the customers objected, they were told that all the lockers are rented out and there is waiting for it and to get preference they have to subscribe to these products.

The post sales services offered was also not up to the mark as the products were marketed with the single objective of sales conversion, often neglecting post sales issues.

The terms and condition of the product pitched are not communicated to the customers. For example, Mr. Deepak Agarwal of TT Nagar branch at Bhopal approached insurance company for claim of his car that met with an

accident, was told that he has to contribute 25% of claim amount as margin, which was never disclosed by the bank staff. If the customers while availing policy wanted to read the offer document, they were told that the product is best in the market and their authentication on the policy form is a mere formality. Later during claim finer details on which the customers had authenticated were pointed to them.

One another strategy adopted by the bank’s staff was selling these products as part of banking product offering like mandatory life insurance as part of Sterling home loan. The customers were told that that home loan cannot be availed without subscribing to the life insurance policy.

The other method of enticing customers who came to invest in fixed deposit were told that that investing in fixed deposit and recurring deposits was out of fashion mostly preferred by traditional customers. When Mr. Ashutosh Kumar holding salary account with Gomti Nagar branch in Lucknow wanted to invest Rs 5 lakhs in fixed deposit was coerced by one of the marketing staff, Mr. Rakesh Sagar to invest in mutual fund. Mr. Sagar did this by saying, “Investing in fixed deposit is out of vogue, mostly preferred by orthodox customers and not suitable to customers like him.” When Mr. Kumar enquired about the riskiness of the product Mr. Sagar quoted his own experience of investing for past two years, assuring him of handsome returns which he himself got from investing. He further continued, “Fixed deposits and recurring deposits are now mostly preferred by illiterates and not modish customers like you”

There are other tactics adopted, like when the marketing officer was not able to convince the customer to invest in third party products, he was told to meet the branch manager for better understanding of these products. The branch manager who along with the marketing staff was given stiff targets for sale of these products used all hook and crook from flattering to use of his position for coaxing the customer to invest in third-party products.

The customers are lured to invest in new ULIPS and mutual funds by touting them as cheap which are available at low NAV. For instance, one of the customers of the bank, Mr. R K Agarwal was told that it would be beneficial to invest in recently launched “Giant” scheme of mutual fund as it is available at NAV of just Rs 10 whilst other schemes are available at higher NAV. He was told that it is wise to

invest at lower NAV as it has potential to deliver higher returns as compared to other schemes having higher NAV. This being a myth as all schemes of mutual fund / ULIP are launched at NAV of Rs 10 only. Thus, customers were persuaded to invest in these new products instead of old schemes having proven track record from other companies.

The bank soon realized that this aggressive marketing of third-party products was impacting the brand image as the no. of complaints and result of the survey were confirming to this fact.

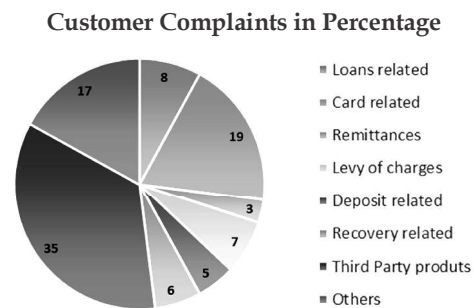


Figure 2: Customer complaints analysis for the financial year 2017-2018

Conclusion

On that very same day on which he read Mr. Gupta’s complaint, Mr. Das t was having dinner with his family, his father having savings account with Nariman point branch of Sterling bank told that he had received a call from the branch. When Mr. Das enquired about the same his father told that his fixed deposits are about to mature in three days and the bank’s staff told that he could invest the proceeds in a product which is offering a better return than on a fixed deposit offered by the bank. When Mr. Das (Senior) probed further, the bank staff told that it is a ULIP plan, which would nearly double the amount in less than three years. After which senior Das said that he shall discuss the same with his son and let them know later, without even hinting about his son’s position in the bank.

After listening to his father’s narrative, the complaint of Mr. Gupta came before his eyes and now he understood his plight even better. He knew that he has to curb the rampant mis-selling prevalent in the bank without impacting the earnings of the bank. He knew that it is herculean task but after listening to what his father told, his resolution to solve

this issue grew stronger.

Managerial Implications

Sale of third-party products is good source of non-interest income which contributes directly to the bottom line of the banks. It is for this very reason that banks aggressively market these products. Banks adopt a number of strategies like branding, advertising, special campaigns, incentives, assigning stiff target for sales to staff, to name a few. These measures can lead to mis-selling of these products. The very step to augment income may back fire on account of customer dissatisfaction. The bank must pay heed to customer feedback as it unearths any flaws in strategy formulation and its implementation based on which it has to adapt its strategy. So, banks have to plan implement these strategies with care ensuring balance between income and customer satisfaction.

Teaching Plan

Following are the questions or issues can be used for discussion of the case.

A. Identify the main issues in the case (15 minutes)

The main issue of this case is mis-selling, which manifests in the form of poor customer selection, lack of transparency in sale of third party products (hiding of vital information) and imperfect complaint resolution mechanism. The other minor issues of this case are customer satisfaction, grievance handling, customer need identification and service delivery to name a few.

B. What corrective measures should the bank undertake to curb mis-selling of third part products?

There are number of steps which the bank undertake to curb mis-selling of third part products which are-

- I. Training of marketing staff- Sale of third party products like insurance and mutual fund requires specific skills which could be imparted through specialized training encompassing all aspects including risk involved in different class of investments.
- II. Customer Selection- Improper customer selection is a major reason for mis-selling of these products, for

which the bank has to ensure product delivery according to needs and profile of the customers. Training coupled with data analytics can play an important role in it.

- III. Specialization- As mentioned earlier sale of third party products special skills , the bank could consider setting up a separate division consisting of staff having right skills and background for it,
 - IV. Reward System- The commission earned through the sale of third part products can be credited to branch profit and loss account instead of giving it to individual staff. The business generated by individual could be reckoned for promotion and other benefits.
- C. How sterling bank can increase its income without compromising on customer satisfaction? (30 minutes)
- I. The first step that the bank has to undertake is curbing rampant mis-selling of third party products which is negatively impacting its brand image.
 - II. Bank cannot ignore fee based income as its contributes directly to the bottom line of the bank hence it has to undertake measures mentioned above for curbing malpractices with regard to sale of these products.
 - III. The bank could explore to augment its income by increasing its non-fund based business like BG's and LC's (Bank Guarantee and Letter of Credit)
 - IV. The bank could also increase its income by reducing its cost of funds by increasing CASA (Current accounts and Savings Account) which are cheaper sources of funds which could be deployed for lending to borrowers.

Girish Mainrai is working as Chief Manager with Bank of India. He is B Pharm and MBA from Dr. H. S. Gour University Sagar, Madhya Pradesh, He holds a Diploma in International Banking and Finance and Diploma in Treasury Investment & Risk Management from IIBF His area of interest include Marketing, Retail Banking and Digital Banking, He may be contacted at mainraigary@gmail.com (+91 9911796985).