

“Enhancing the Value Proposition of Priority Banking in India”

A case study of Kotak Mahindra bank vis-a-vis six other Banks of India

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Abstract

Priority banking is a process of identifying valued customer and providing such customer the additional benefits of the banks. It is a new concept in Indian banking sector and idea behind such type of **banking** is to provide hassle free services to its first class customers. This paper focuses on the propositions of Kotak Mahindra Bank in terms of priority banking, to study the factors which help this bank to fight against its competitors, and to study the relevance of priority banking of Kotak Mahindra Bank with other banks of the economy. This paper also analyzes the value proposition of Priority Banking of Kotak Mahindra vis-a-vis six other Banks of India by discovering the Priority Banking propositions of Kotak Mahindra Bank vis-à-vis its competitors. The factors (push and pull) which lead customers to invest through a bank and customer satisfaction through bank Services and Investment. Co-relation between Age and safety of Investment and safety of Returns.

Key Words: Value proposition, priority banking, competitive advantage, customer satisfaction.

1. Introduction:

In the Indian banking sector, priority banking is a new concept. In this type of banking, the bank find out its priority customers generally those customers who have deposit with the banks more than certain defined amount and some special benefits are provided to these first class customers by the bank. Ex. Some additional services offered to these kinds of customers include quick response for transactions. Assigning of client relationship managers. These customers can use banks premises for holding meetings, can access the Internet free of cost and several other benefits are also provided. Use of bank building premises, access of internet free of cost etc. The basic purpose of this form of banking is to make the experience of banking hassle free and less time consuming. This is not to be confused with wealth management where the thrust is on providing first-class customers, customized services and expert advice on various financial needs. This is generally carried out by the wealth managers of the bank. However priority banking as part of its service offerings may include wealth management.

1.1 Objective

Our research objective is to enhance the Value Proposition of Kotak's Priority Banking vis-a-vis its Competitors. To conduct the research we needed to do a survey of the Customers and Relationship Managers of Kotak Mahindra Bank and its competitors. For this research work we took 6 other banks apart from Kotak Mahindra Bank. These banks include-

- a. ABN AMRO Van Gogh Preferred Banking
- b. CITI GOLD
- c. Standard Chartered Priority Banking
- d. HSBC Premier
- e. HDFC Imperia
- f. ICICI Private Banking

1.2 Kotak Mahindra Bank

Kotak Mahindra is one of India's leading financial institutions, offering complete financial solutions that encompass every sphere of life. From commercial banking, to stock broking, to mutual funds, to life insurance, to investment banking, the group caters to the financial needs of individuals and corporate. The Institution was founded by Mr. Uday Kotak in 1985, today Kotak Mahindra Group is one of the India's leading financial conglomerates. In February 2003 Kotak Mahindra Finance Ltd, the Group's flagship company was given the license to carry out banking business by the Reserve Bank of India (RBI). The group has a net worth of over Rs. 5600 crore, employs around 17100 people in its various businesses and the group has a network of more than 1,250 branches, franchisees representative offices, and satellite offices across 344 cities in India servicing around 36 lakh customer accounts.

KOTAK MAHINDRA PRIORITY BANKING: Privy League

Priority Banking is a symphony of banking benefits, unique investment products, personalized service and exclusive lifestyle benefits that bring complete harmony to all your financial needs. It is designed to deliver proven expertise in providing pragmatic and customized end to end financial solutions. It is an exclusive service

that is embarked for a privileged few. It is about customers needs, goals, dreams and there aspirations, managing customers investments is the core of there proposition.

PRIVY LEAGUE

Privy League is the evolution of the concept of Priority Banking, wherein a select few can expect to enjoy a wider range of benefits and services. Whether it is the dependability on a single point of contact, the benefits of personal or business banking or cutting-edge investment advisory, Privy League offers you a world of banking benefits and investment advisory that truly places you in a league of your own.

1.3 Privy League Advantage

Offers a customized financial plan, keeping your financial objectives at its core Kotak Group offers you a wide range of investment options, under one roof, to meet customers goals Offers key benefits of the Kotak Mahindra Bank account free of charge

Benefits of Privy League

Banking Privileges

- Ease of Banking & Investing
- ActivMoney: 2-way sweep into Term Deposits
- Free Demand Drafts & Banker's Cheques
- Free At-par, pre carbonated cheque books
- Lockers at discounted rates
- Gold at preferential rates

Customized Financial Planning

- Understanding financial health
- Understanding financial goals
- Planning investments
- Constructing portfolio
- Reviewing and balancing portfolio

Criteria for Privy League

Privy League Platinum plan is available at an initial Relationship Value of INR 25 Lakhs, and average quarterly Balance of INR 50,000

Privy League Gold plan is available at an initial Relationship Value of INR 10 Lakhs, and average quarterly balance of INR 50,000

Kotak Priority Banking empowers customer with:-

- A consistent investment planning process based on customer risk profile, financial goals and time horizon.
- Access to wide range of investment products
 - Mutual Funds
 - Insurance
 - Exclusive investment products
- A comprehensive suite of banking products
- Ease of executing and managing investment with
 - In-depth research and information on market movements and new investment opportunities.
 - An investment account which gives customer 24*7 transaction access to invest in various Mutual Fund schemes through the internet, by phone and fax.
 - Convenient and hassle free investment into Mutual Funds.
 - Quarterly review with customers Priority Relationship Manager.

2. Research Process:

To discover the Priority Banking proposition of Kotak Mahindra Bank and the above Banks we decided to take the following factors into consideration from the side of customers-

- What customers think about Priority Banking.
- For how long the customers are associated with their respective banks.
- Whether the customers are satisfied with the services provided with their respective banks.
- The investment avenues customers prefer the most and also their investing habits. We took the following investment avenues-
 - i. Direct Equity
 - ii. Equity Funds
 - iii. Debt Funds
 - iv. Hybrid Funds

- v. Term Deposits
- vi. Insurance
- vii. Real Estates
- viii. Gold
- The time horizon of investments by respondents.
- Whether the customers collect some information before making any investments and the level of information they collect before investing
- The services they like the most and suggestions to improve the services of their respective banks.
- Whether investments depends upon the current market situation.

We also collected the some information about the customers in order to correlate these factors with their investments and the kind of investments they make. The information we looked for to collect through the survey is given as under-

- a. Age
- b. Education Level
- c. Residence Location
- d. Occupation
- e. Level of Income

We also decided to do a survey of Relationship Managers in order to understand how they push and pull customers to invest in their banks and/or through their banks. We are attaching both the questionnaires, for customers and RMs. For discovering the push and pull factors we took following factors into consideration-

- a. Time of association with the bank or industry
- b. Three services liked by their customers the most.
- c. The investment avenues their customers prefer the most.
- d. The investment avenues they push the most.
- e. The time horizon of investments of their customers.
- f. Customer preferences among – Risk, Return and Liquidity
- g. Three unique services/ differentiating factors they provide to the customers on order to beat the competition.
- h. Level of trust required to make the customers invest in/through their banks.
- i. Whether investments depends upon the current market situation.

2.1 Research design

Sampling

We choose the sample on the basis of Non-Probability Sampling. We decided to use Convenience Sampling technique by taking the priority customers of each bank randomly, which represented the whole population of the priority banking customers of each bank, to conduct our survey. We chose our sample size as 210, i.e. 30 priority customers of each bank.

For conducting survey of Relationship Managers, we chose a sample size of 14 RMs, i.e. Two RMs of each bank.

Data collection

Secondary Data Analysis

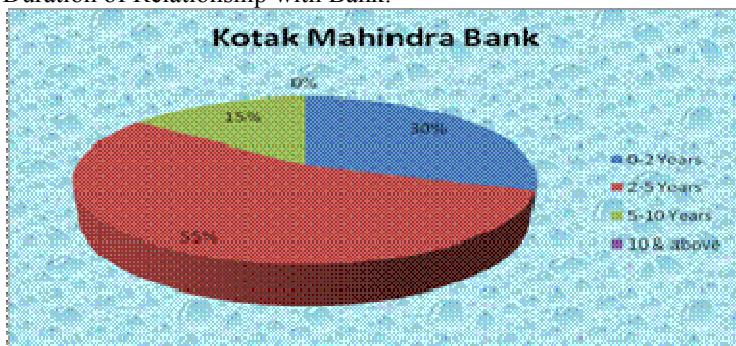
We also did secondary data analysis. We collected information from the websites about the Priority Banking of all the considered banks. We also collected first hand information by meeting with Relationship Managers of the banks. We also collected the brochures in order to do secondary data analysis. We are enclosing an excel sheet of comparative analysis of Products and Services of Priority banking of seven major banks.

Survey

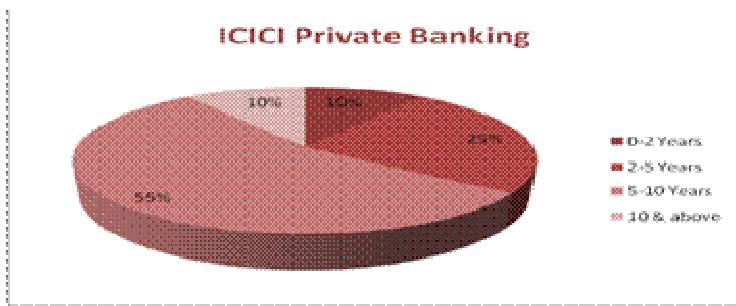
We selected the Questionnaire Survey for the course of action, to understand the investment avenues of the priority customers and to understand the push and pull factors which lead to investments by the customers. We made a closed-ended questionnaire with a rating scale in one question (for customer) so that it becomes easy for both the customers and us to administer it easily and easily tabulate and analyze it. We also pre-tested it with some RMs of our own banks to make the questionnaire error-free and accurate so that it can reveal relevant and accurate information that we require to analyze.

3..Data analysis

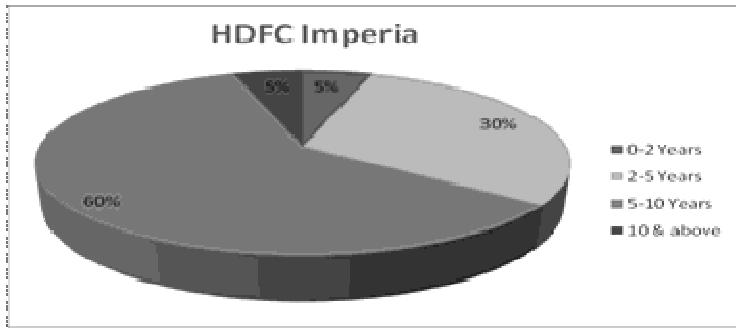
Duration of Relationship with Bank:



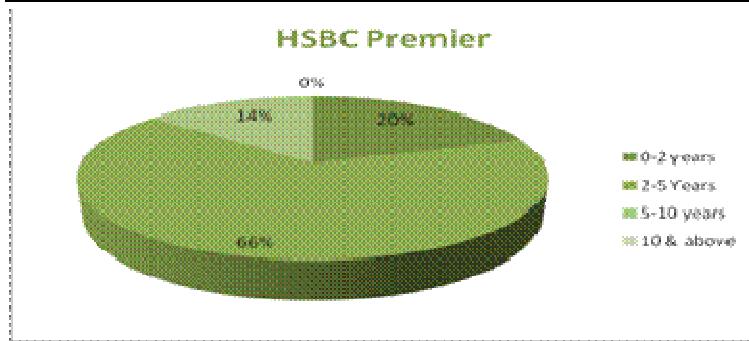
The above diagram shows that 30% of the respondents are associated with Kotak Mahindra Bank for 0-2 years. A majority 55% are associated for 2-5 years and only 15% are associated between 5-10 years. It shows that Kotak Priority is slowly still in the nascent stage in Priority Banking as most of the respondents (85%) have a relationship with it for 0-5 years.



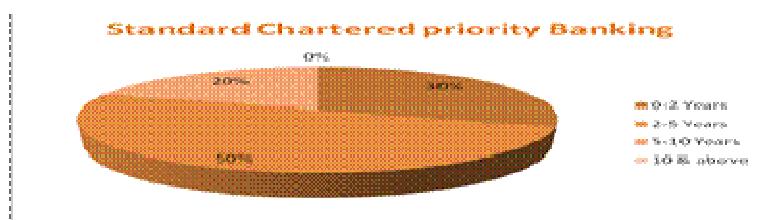
In ICICI Private Banking, a majority 80% respondent have relationship with ICICI Private Banking for 5-10 years. It shows the strong presence of this Indian mass banker. Whereas only 10% respondents have relationship for 0-2 years. It shows that it is capitalising to its existing customers and tapping new customers as well.



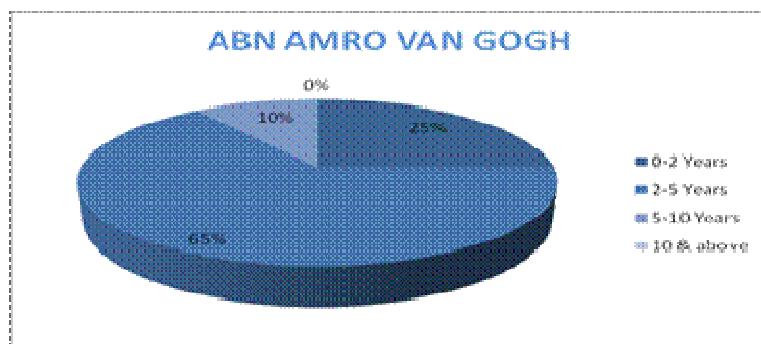
HDFC Imperia has its strong presence in the Priority Banking. 30% of the respondents are associated with it between 2-5 years. Whereas 60% of its customers are associated with it for 5-10 years.



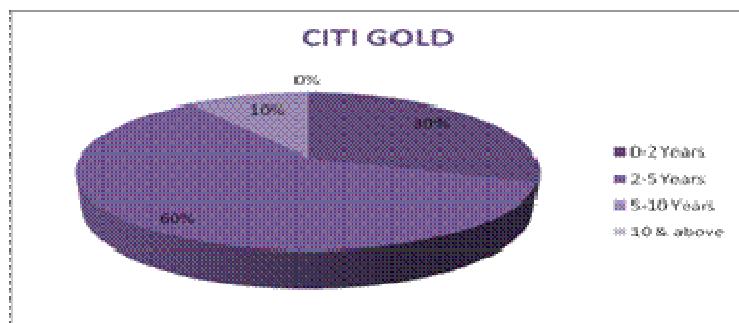
HSBC Premier also has strong presence in Priority Banking. It capitalises on its advantage of being an international brand and global expertise. Majority of its respondents (66%) have a relationship with HSBC for 2-5 years.



About 80% of the respondents of Standard Chartered Priority Banking are associated with its priority banking for a 0-5 years.



About 80% of the respondents of ABN AMRO Preferred Banking are associated with its priority banking for 0-5 years.



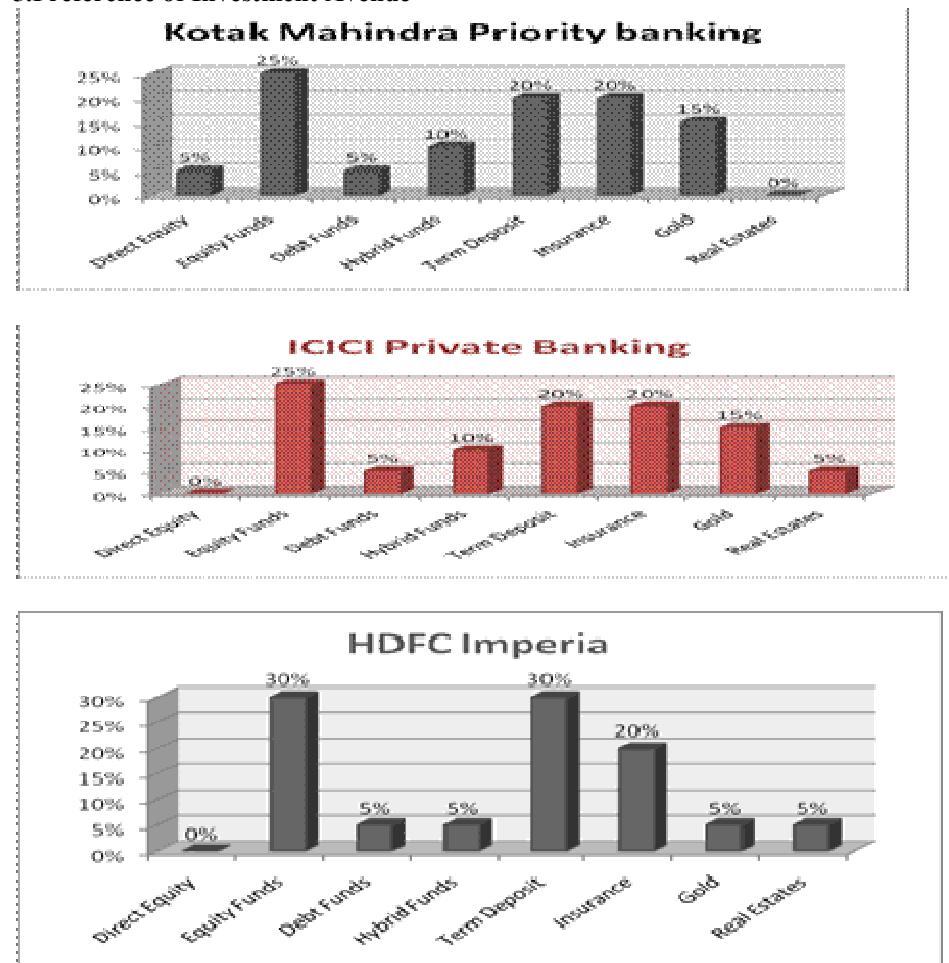
Whooping 60% customers of CITI GOLD are associated with its priority banking for 2-5 years.

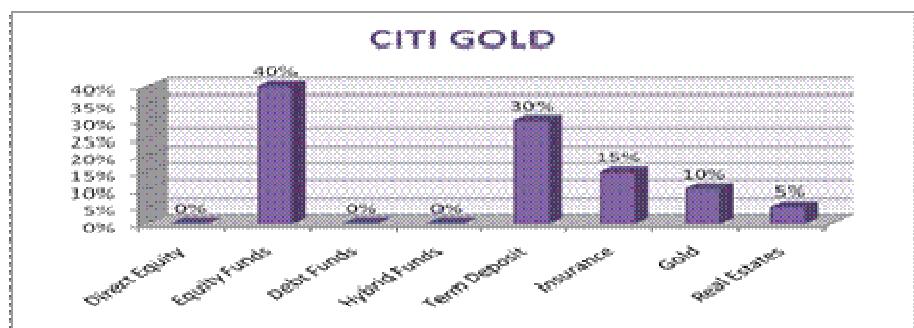
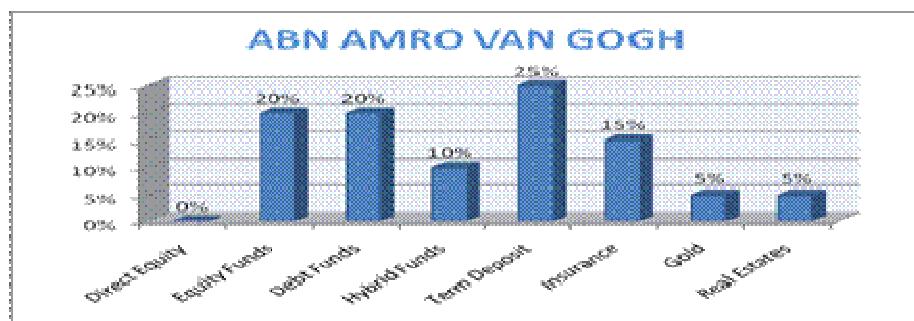
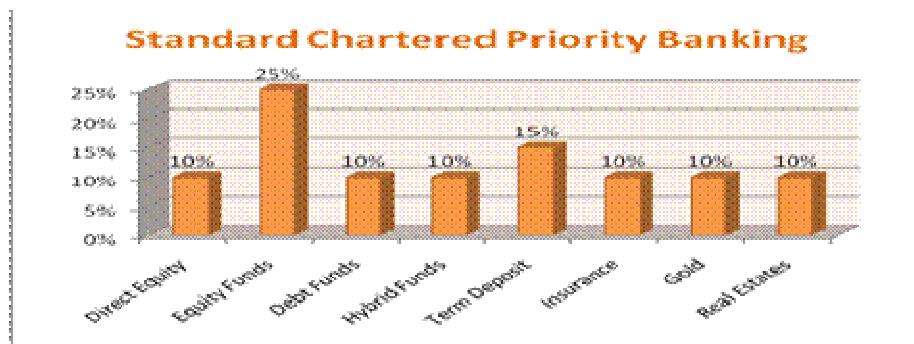
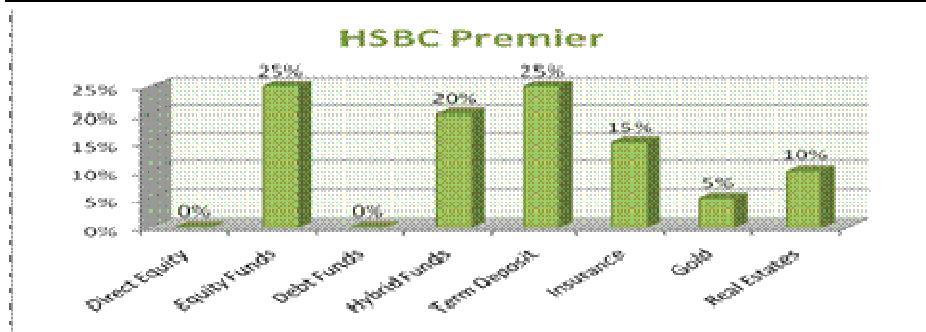
4.Satisfaction in terms of Services:

Banks	Customer Satisfaction level in % in terms of Priority Banking Services
Kotak Mahendra	90%
ICICI	75%
HDFC	75%
HSBC	90%
Stan Chartered	100%
ABN Ambro	95%
CITI	100%

In terms of satisfaction in terms of Services provided by different banks, 90% respondents of Kotak Mahindra Priority Banking are very much satisfied with its services. 75% respondents of both ICICI and HDFC banks are satisfied with the services. We see a very high satisfaction level by respondents when it comes to International banks. All the customers of CITIGOLD and Standard Chartered are satisfied with the services of these banks. Customers feel the quality of relationship with these banks including HSBC and AMN AMRO is very good.

5.Preference of Investment Avenue





From the above figures, it is quite clear that Mutual Funds is the most preferred choice among respondents. In mutual funds, respondents like to invest in Equity Funds as it is their most preferred choice. But, in today's volatile market where we are witnessing troubling times in financial markets, persistent increase in commodity prices and increase in prices of petroleum, there is tremendous volatility and uncertainty in the markets world over. So the investment habits of respondents are also changing. In this highly volatile market, they are looking for safer options. So the next most preferred choice is Term Deposits. Gold and Insurance seem to be important investment options. We see gold prices are spiralling even in the volatile markets. So respondents are slowly shifting to these options.

6.Investment of Money Through

The above figures clearly show that most of the respondents we have surveyed invest their money through banks. They feel banks invest their money in more professional way as compared to investing money on their own or through other financial institutions. It is also to be noted that banks capitalise on the relationship they

have with the customers for many years and sell products along with giving specialised services. As high as 95% respondents invest money through bank.

6.1 Time Horizon of Investments

Reseach also state that most of the respondents surveyed like to invest their money for a period of 1-3 years. The second choice is to invest for a period of 3-5 years. It should be noted that respondents who invest in Equity Funds, Hybrid Funds, Gold and Debt Funds invest their money for a period of 1-3 years. Whereas respondents who invest their money in Insurance, Term Deposits and Real Estates invest for a period of 3-5 years.

6.2 Level of Information Collected before making Investment

From the reasearch, we can clearly see that about 70% of the respondents collect from medium to high level of information about the products, market factors and forces before making investments. Respondents feel that they need to know about the products where they are investing their hard earned money. So they collect information from Relationship Managers, through Internet, Magazines, Newspapers and Journals.

7.Satisfaction with the Investments

Banks	Customer Satisfaction level in % in terms of Priority Banking Investments
Kotak Mahendra	80%
ICICI	65%
HDFC	80%
HSBC	70%
Stan Chartered	85%
ABN Ambro	70%
CITI	80%

From the above figures, we can very well see that most of the respondents of all the banks are very much satisfied with the investments they have made. However, the percentage figure varies but it's almost the same. The satisfaction level in terms of investments ranges from 75-85%, except ICICI Priority Banking. Only 65% respondents of ICICI Private Banking seem to be satisfies with the investments they have made.

8.Statistical analysis

Correlation

We also found out the coefficient of correlation between various factors in order to understand the relationship between those factors

a. Correlation Between Age and Safety of Investments

Coefficient of Correlation = + 0.45

The coefficient of correlation between Age and Safety of Investments comes out to be 0.69 depicts that as the age increases people give more preference and weightage to safety of their funds invested as compared to returns. For respondents, with the increasing age people would like to choose safety over high returns. But the coefficient of correlation is medium, which shows that people still want to have good returns with ensured safety.

b. Correlation Between Age and Return on Investments

Coefficient of Correlation= - 0.39

The coefficient of correlation between Age and Return on Investments comes out to be -0.39, depicts that when the age of investors is low they look for higher returns. We can say that the risk appetite of investors at a younger age is higher as compared to when they are old. Respondents with higher age prefer less of return as compared safety.

9. Conclusion

Key Findings through Relationship Managers:

1. Most Relationship Managers think that in today's scenario where we are witnessing troubling times in financial markets, persistent increase in commodity prices and increase in prices of petroleum, there is tremendous volatility and uncertainty in the markets world over. Customer's investments are

determined by the market forces. In such a volatile scenario they advise their customers to invest in Structure Products and to invest for a period of 3-5 years.

2. In current market situation where sensex is around 15000 points, 50% of the RMs surveyed said they push and advise the customers to invest in Debt Funds, Hybrid Funds, Real Estates and Gold. Whereas, 30% RMs still push Equity Funds as they believe that bullish market will come soon and it's the right time to invest in Equity Markets. The rest 20% said the the mix of the above two.
3. In the current market situation, 50% of the RMs suggest their customers to invest for a period of 1-3 years and the rest suggest to invest for a period of 3-5 years. However, for Equity Funds, the investment period is suggested to be 1-3 years and for Term Deposit it is 3-5 years.
4. All the Relationship Managers surveyed agreed to the fact that Trust is very important. All the RMs surveyed agreed that building Trust with the customer is utmost important in order to keep him/her investing in/through their respective banks.
5. All the Relationship Managers agreed that RM should always "Buy Relationships rather than selling Products. If you buy Relationships, Products sell themselves."
6. Buying relationships help both the customers and banks in making a long term relationship and establishing a mutual understanding.
7. All the Relationship Managers also agreed to the fact that if they leave job with the current bank and join a new bank, they can also sweep the customers to the new bank. This finding shows that RM pays a lot of emphasis in building trust with the customers. It also shows that people actually deal with RMs rather than a bank.
8. Most Relationship Managers believe that their customers look in for a mix of return and safety on their investments. So they prepare investment portfolio after understanding the customer's needs in terms of weightage given to return, safety and liquidity. Here, the experience and understanding of the markets come in handy for RMs.
9. We also found out that there is a negative correlation between age and return on investment. It means with the increasing age of the customers, they tend to give more weightage to safety as compared to return. They prefer to invest in Term Deposits, etc. So, RMs prepares the portfolio accordingly.
10. However, it should be worth noted that final decision in most of the cases is made by the customers themselves. They look for various options and decide according to what suits them the best.
11. We asked Relationship Managers about what do they provide to customers to beat the competitors. The common answers were-
 - a. Best Service
 - b. Personalized schemes
 - c. Customized Products
 - d. Home Banking
 - e. 365 days Banking
 - f. Structured Products
 - g. Offering good range of products

Key Findings through Customers:

1. On the side of customers, Mutual Fund seems to be a preferred choice. 35% customers overall invest through Mutual Funds among which Equity Funds, Hybrid Funds and Debt Funds are most popular among customers.
2. The second most preferred choice after Mutual Funds is Term Deposits. In today's volatile market, the investors have lost some faith from equity markets. So, they are moving towards a safer option, i.e. Term Deposits and FMPs. Recent hikes interest rates have also motivated customers to invest in Term Deposits. 20% people see Term Deposit as the second most preferred investment option.
3. Almost 15% customers prefer to invest in Insurance.
4. Looking at the current market situation, 20% customers invest their money for a period of less than 1 year. 40% customers invest their hard earned money for a period of 1-3 years. This is the result of changing customer's investment habits. They are switching to structured products. 35% customers invest for a period of 3-5 years. Only 5% customers invest for a period of 5-10 years.
5. A key finding in our research showed that as high as 90% of our respondents invest their money through banks. Only 10% invest their money on their own or through some other financial institution.

6. As high as 90% respondents are satisfied with the investments they have made. Although in the current market situation they are not sure about the returns they will make, but still they are very much satisfied with their investments.
7. As high as 85% respondents collect prior information before making any investments. Out of those 85%, 50% collect medium information and 30% collect high level of information about the markets and products before making any investments.
8. While taking feedback from the customers, we found that Brand plays a very important role in motivating customers to invest in a bank. Strength of a brand plays a very important role in buying a long term relationship.
9. Respondents have rated the Quality of Relationship as a very important factor. They look at how the Relationship Managers respond and serve them. As high as 85% respondents believe that they deal first with the RMs and then bank.
10. The following services are rated very highly by the respondents-
 - a. E-statement b. Home Banking c. Net Banking d. Phone Banking
11. In an informally asked question about whether the respondents would like to invest their money through Kotak Mahindra Bank, as high as 70% respondents have said they May invest in future provided it provides better services. 30% respondents have said they are very much satisfied with their current relationships and will not invest through Kotak Mahindra Bank.
12. It has also been found out that old relationships with the banks play an important role which makes customers invest through a bank. For Example, we found many customers who have relationships with HDFC and ICICI banks and they invest through these banks and are loyal to them.

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