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Training And Manpower Development As A Tool For Responding To The Challenges Of The Nigerian Financial Services Industry.

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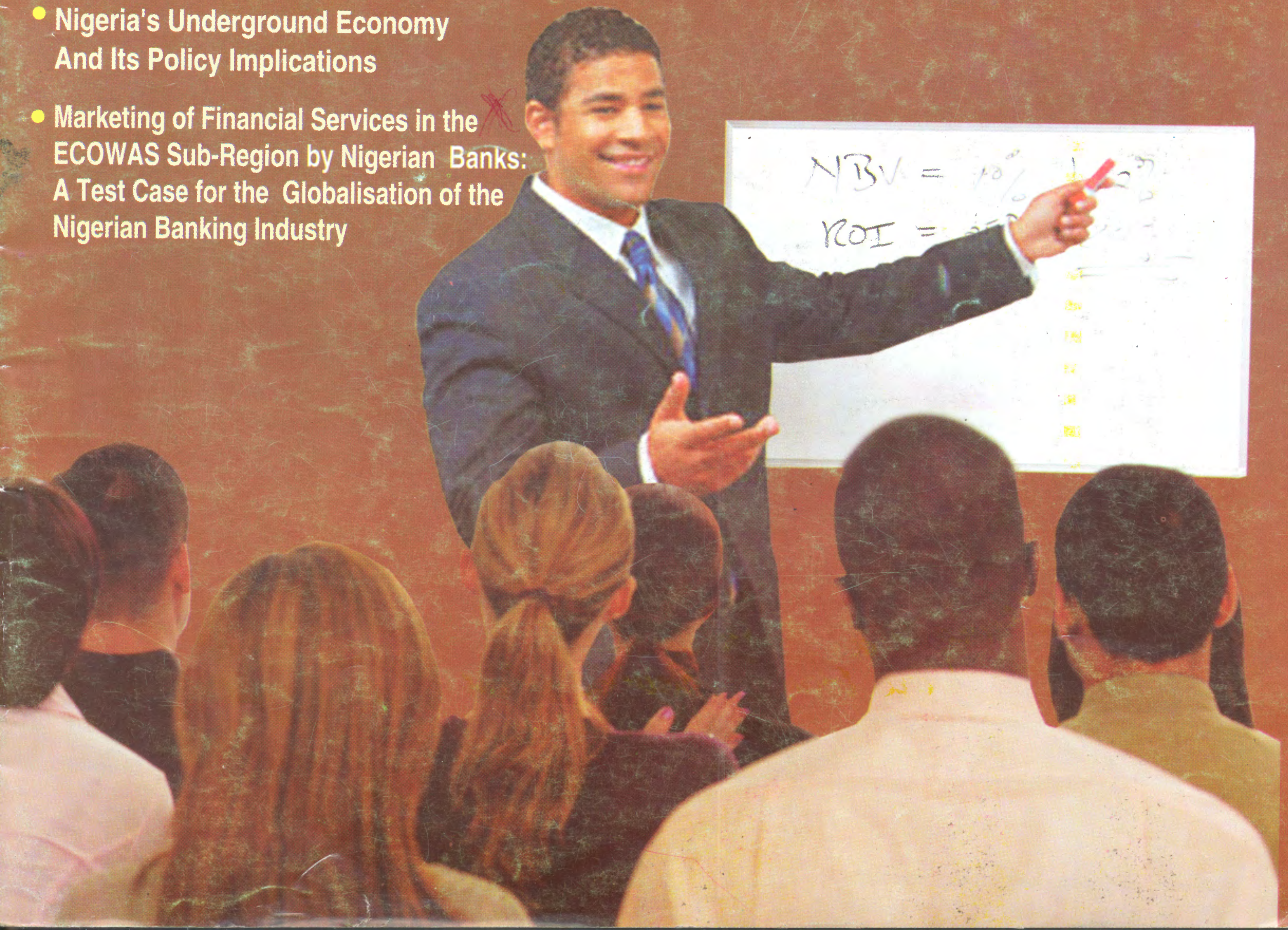

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Marketing of Financial Services in the ECOWAS Sub-Region by Nigerian Banks: A Test Case for the Globalization of Nigerian Banking Industry.

By

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Abstract

In the light of the increasing importance of segmentation in the marketing of financial services, this paper argues that Nigerian banking industry can enter the global financial market with a strategy that incorporates both segmentation and globalisation. To enable marketing of financial services succeed in an era of globalisation, this paper also suggests that the entire world can first be segmented into regions which now form the plank for globalisation. This, it says, because market segmentation has been a fertile ground for financial services marketing for many years. The adoption of segmentation strategies within the financial services industry is a signs of the globalization of marketing. Thus, the Nigerian banking industry can make the ECOWAS sub-region its primary segment in its bid to globalize its marketing operations in the area of financial services.

Introduction

A major breakthrough came to the banking industry after the recapitalization in the 2005 when the banks' capital moved from a paltry sum of N2 billion to an average sum of N25, 000 billion at the initial stage, and later to an average of $1,000 million (an average of N150 billion) today and much more in certain cases. With 24 banks scaling the hurdle of recapitalisation and consolidation, the market for products and services became more active once again and banks went upbeat to create more services and products for the market. Today, customers are more assured of receiving better attention than before on there request. Hitherto, moribund sectors of the economy have begun to receive attention of the bank with attendant possibility of productivity and growth in the economy. A more salutary effect of increased capitalization is on the cost of funds in the market. The cost of bank credit has gone down somewhat, thus allowing the real sector to make some progress rather than erstwhile prohibitive cost faced by the borrowing firms hitherto. The effect is also noticeable on the external sector of the Nigerian Banking system, allowing the banks that have the tendency to be outward looking to achieve their aims. This has encouraged banks ventured into the area of having subsidiaries and branches outside the country's shores. The establishment of such foreign offices has increased the presence of Nigerian Banks in these locations. The foray of the banks into the ECOWAS sub region meant that the Nigerian banks have taken internationalisation as of the benefits of the recapitalisation exercise as the banks' shareholders must be rewarded with capital growth of their stock and dividends to support year end prices.

The present scenario, however, is no indication that Nigerian bank has reached *El Dorado* as there as still more grounds to be covered, more services to be introduced while there is need to perfect their previous product offerings, and internationalisation experience. In this wise, the objective of this paper is to discuss the consolidation of internationalization

To fulfill these objectives, this paper is structured into the following sections: After the introduction is theory of international banking, the requirements of international banking, the position of the Nigerian banks in the world and the critical success factors for marketing of international services by the banks. The last section concludes the paper.

2.0 Literature and Theories

Defined as the bank that has presence in all financial markets and continents, the global bank is easily distinguished from the national, regional or continental banks. Following the floating of the dollar in the early 1970s, financial institutions have been free to expand operations outside their country of domicile with different menus of products created in torrents, designed primarily to meet the needs of various types of clients who could not be supplied such services in the home market. Product offerings were fairly limited in the 1960s (Levich, 2001, 6). This came on the heels of the expansion phase entered into by the banks around the world and the need to diversify assets and income base. Also important was the need to increase banks' presence and rake in more income while increasing their assets. Equally, banks got themselves involved in the financial flows around the world. Hence, as a result of the dwindling involvement of government and official flows, private flows became prominent. Flows from aid and other form of technical assistance and debt gave way to foreign investment as the private funds' flow gained ascendancy. Globalisation gave impetus to the drive by banks to register international presence with the collapse of the hitherto strict walls of trade. Of no less importance are the expansion and the promotion of free trade through the instrumentality of the World Trade Organization (WTO) agreements around the world. The expansion mode has consequently forced outward-looking banks to register presence from shell centers in the Caribbean's to gain access to the Eurodollar markets (Houpt, 1999). These graduated into full banking institutions, fully incorporated with subsidiaries. In conjunction with the International Monetary Fund and the World Bank, leading commercial banks and governments have worked assiduously together since the early 1980s to deregulate banking practice worldwide (Weller, 1998).

For the international bank foreign fully owned branch is the best, which most nations hardly allow, therefore, banks must be in partnership with other entrepreneurs in the country to fully set up. A subsidiary might be possible where treaties allow this between countries. Entry is also possible through collaboration with the government of such host nation. Of all these, the incorporated branch can fully respond to changes and remain autonomous no matter what is happening to home branch. This has helped a number of international branches of banks to be far removed themselves from crises being faced by the home bank and continue to trade. The International Banking Facilities were common in the eighties because of the advantages they conferred on the banks and its organisational identity is closer to the shell institution, otherwise it cannot be placed within the Nigeria context. However the Multinational banks (MNBs) are noted for causing financial crises as they tend to grant facilities which do not seem to aid the country's development but concentrate on the shorter end of financial market maximise gains at the expense of the domestic economy (Aliber, 1976).

The requirements of a global bank are more than a mere franchise or bilateral agreements for economic cooperation between nations or the name or brand. Capital in human and financial resources is more important than any touted product as the market will create the product to be supplied. Recent experiences of the Nigerian capital market has revealed that the surging interest of the people to invest in long-term had been dampened by the way firms floating public offers returned funds for unsubscribed shares. Human capital with sufficient financial resources and required experience in international financial market is compulsory for success. The banker must be knowledgeable in the environment where he is required to operate. Of equal importance are the external factors and the requirements of the host countries which could be legal and prudential (Bank of International Settlements, 1998). He should also be well informed about other international crimes such as terrorism and money laundering. Some countries have special laws for foreign banks while others expect the foreign bank to comply with the domestic laws only. These laws would often be different from the ones the bank is used to in the home country. Most countries enforce capital adequacy requirements with vigor and sometimes toughen the requirement for foreign banking institutions (Loranth and Morrisson, 2003) as this raises deposit insurance and subsidy concerns.

It is important to follow the trends of banking around the world especially in the developed economies in order to be impactful in the country. Trends such as automation and other current practices in service rendering banking worldwide (ATMs etc.), mobile and internet banking are important. The current practice of banks in employment of young graduates was held to be significant and has impacted the Nigerian banking world (Osabuohien, 2007).

3.0 Regional Integration Groupings

Apart from The Economic Community of West African States (ECOWAS), the African Economic Community (established 1991) also exists as agreements among African states to have future economic interaction. However, the ECOWAS treaty, signed in 1975, has been more enduring than any other within the sub region. It is a region with bank-based financial structure (Beck and Levine, 2002), with most of the capital markets either yet to be developed or at infancy stage. An example is the Ghana Stock Exchange, which was established in 1989. Though the overall financial development matters, as there tends to be convergence at some time in the future, the dominance of banks expanding into the sub-region can establish a pattern for the region. This means that economic activities of the region would be commanded by banks in the future. Falegan (1987) long ago theorized that the beginning of internationalization of banking in Nigeria should be from the ECOWAS sub region. An area with similar cultural practices, corporate governance principles and office culture are almost of the same hue, except for a significant level of official corruption in Nigeria. (This is not a strong feature of the private sector.)

Both external and internal cultural practices are similar. The objectives of the grouping were extended to cover economic integration and the establishment of a currency in order to facilitate extended and improved trade in the sub region. The required economic criteria of openness to trade, labor mobility for the currency center, have all been met but for diversified exports within the region. Gupta and Yang (2005), believe the basic problems of infrastructure, sound macroeconomic conditions and good implementation plans. Ojo (2007), however says that lack of political will to cooperate has been the bane of the Pacts existing between the governments of the countries and this has hampered further expansion into the sub region though the agreements says so.

3.1 Export of Goods and Services

Of note is the fact that Nigeria is a monoculture exporter, having virtually relied solely on the oil sector for so long with little diversification to the other sectors. Non-diversification has ensured that the shocks in the international oil market are being directly transmitted to Nigeria without the opportunity of mitigating these shocks. Since most of the countries in the sub-region lie within the same climatic zone, agricultural produce are similar. As result of this, trade in primary commodity has no advantage and thus little intra regional trade. The only outstanding produce is the oil which Nigeria supplies the other member countries. Consequently, this scenario, Nigeria's other possible export to these countries would be in the form of services and strategic diversification of assets into investments. With the integration at the level of common market, the movement of goods and services is not hampered in any way which has made possible for banks to establish in these countries. It is possible then to indulge in foreign investment to earn returns. This would be a solution to the problem of possible capital flight out of Nigeria and a cure for the Dutch disease (Adegbite, 2007) and Collier *et al* (2003) the country is suffering from.

3.2 Regulation Issues

Multinationals are first subject to the laws of the country where they operate and conduct business which qualifies them to operate in their host countries. However, special laws bring challenges into the financial environment and may cause uneven playing field. This may be used for banks located in free trade zones, but not for banks within the normal domestic market. The first step of regulation is self regulation that comes in as a result of discipline, not necessarily by the market, but by experience and culture. IMF indicates that international banks should first be regulated from the Head Office, according to Basle Concordat of 1983 which facilitates closer cooperation between supervising authorities. The experience of Bank of Credit and Commerce International (BCCI) is still fresh as most international banks frequently fail from home. International regulations of financial markets and institutions are costly to administer and control. While Huertas (1992), suggest market supervision, where all market participants (including rating agencies and institutional investors are to control their exposure to financial firms. Levich, (2001) supports the idea that market participants should be exposed to the risk of loss in order to take market supervision seriously. This according to Diamond (1984), will increase the number of the eyes watching the safety and soundness of financial firms operating overseas.

4.0 Domestic Market

While it is advisable to advocate the internationalisation and foreign branching of banks operations in Nigeria, there is a lot of ground to cover in order to fully engage the domestic market. Certainly the number of bank branches in Nigeria is yet to reach the optimum and there are still areas that are not yet banked. Market structure excludes a number of person, though not as high as frequently touted (statistics normally based on the 140 million population of 2006 are not strictly correct and since many people hold multiple accounts that are not fully functional). Given the present level of capitalisation, the banks can still afford to expand domestically (less costly) and internationally. But this should be done base on sufficient demand in certain geographical areas rather the indiscriminate branching in the urban centers. In addition credit concentration rather branch should employed by the banks to expand domestically. There are still catchment points within the towns that need the services of banks because of the level of economic activities generated.

The Concept of Globalisation

Globalisation is usually interpreted as an increase in integration between and within countries manifested through an increase in the movement of commodities, labour, capital (financial and physical capital), and technology. From a sociological perspective, Giddens (1991) sees it as a "decoupling" or "distanciation" between space and time. In the same vein, both Harvey (1998) a geographer and Mittleman (1998) a political scientist see globalisation as a 'process comprising time and space, and thus shrinking the global market place for efficient interaction to occur. This means that globalization is more than increasing interdependence of national economies in trade, finance and microeconomic policy to the compression of the world as a whole.

From the foregoing standpoint, globalisation is capable of diffusing practices, values and technologies across the globe and consequently leading to greater interdependence and mutual awareness among economic, social and political agents across the world.

Segmentation in Financial Services.

Market segmentation is currently recognised as a powerful strategy in marketing practice. By concentrating on meeting the needs of homogenous groups within a larger, heterogeneous market, financial services marketers have been able to increase profitability and reduce the competition they face. Their customers get a product better suited to their requirement.

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Pre and Post Consolidation Asset Holdings of Selected Nigerian Banks

S/No	Bank	Pre Consolidation	Current Shareholders Fund $ b	Post Consolidation Assets $ B	Countries Represented
1	UBA	1.7	1.46	10.4	7
2	Zenith	1.7	1.0	10.2	4
3	First Bank	2.9	3.09	13.0	2
4	Intercontinental	1.6	1.45	6.08	2
5	GT Bank	1.5	1.35	6.3	5
6	Union Bank	3.3	.930	0.7	3

Sources: From Various Financial Reports of Respective Banks for 2007.

Marketing permeated into the traditional world of banking and financial services later than it did into consumer and industrial goods, and segmentation strategies have only recently been put into practice. Studies on market segmentation for banks in the USA have historically been some way ahead of its UK counterpart in adopting marketing techniques. Because of the difference in the organisation of the banking system it is doubtful how easily, such American techniques can be transferred to the UK.

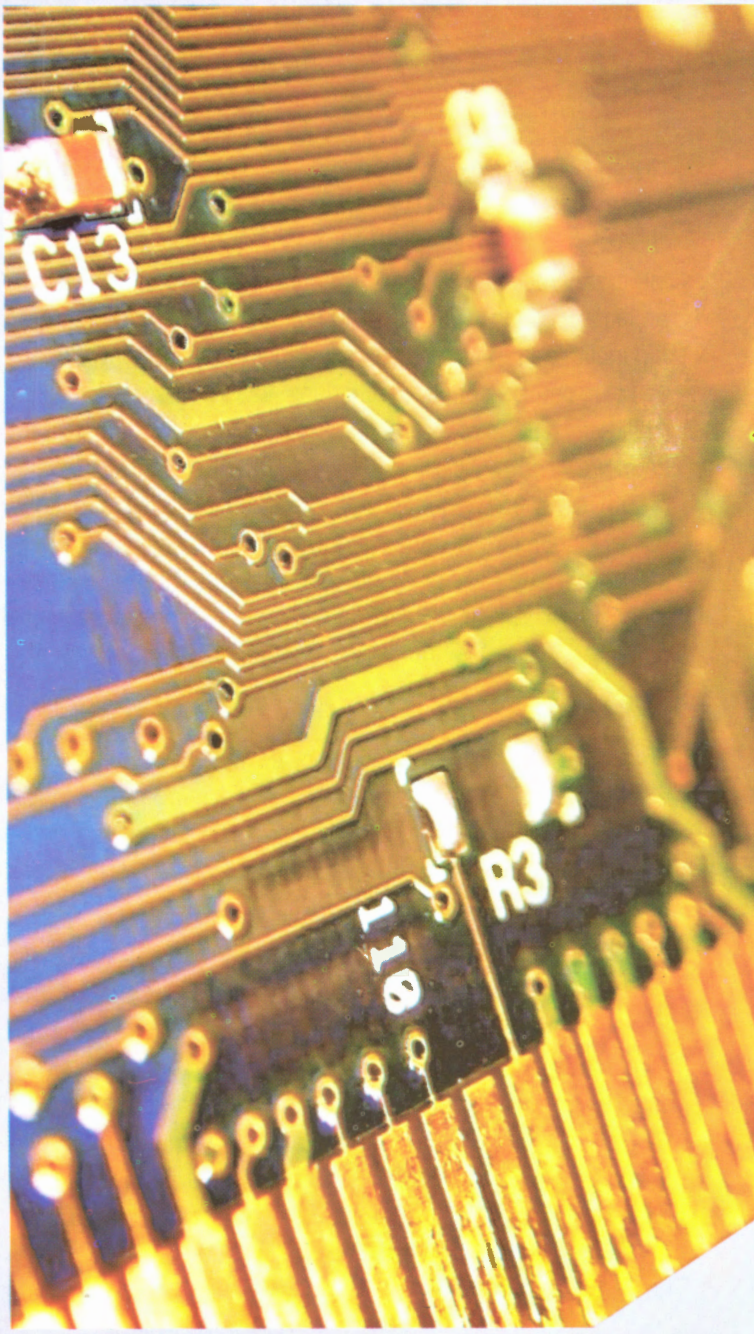
As competition in financial service markets increases, banks in Nigeria are to increasingly adopt a segmentation strategy, not only within Nigeria, but also outside. They have to move out to the West-African sub-region in the first instance. In this case, emphasis will shift from increasing the patronage of existing users to attracting non users.

With globalization in place, Nigerian banks should realise that customers' financial needs differ as they move from country to country, and from region to region. This means that the banks need to broaden and deepen their product ranges. The broadening of the product range will extend the coverage of the population, bringing products for children, teenagers and students. The deepening of the product range will see the introduction of a greater variety of services for each group: first-time-buyer mortgages, insurance and personal loans for the young, equity release products and high-interest savings products for the elderly. In trying to cover the ECOWAS sub-region, Nigerian banks can develop branded multi-service accounts targeted at segments that are identical in terms of age range, status etc. (Garaghan, 1989).

In practicing market segmentation within the context of globalization, the criteria for effective segmentation suggested by Kotler (2002) provide useful benchmarks for Nigerian banks. These are: measurability- the size and purchasing power of the segment must be easily assessable. Substantiality- the potential profit from the segment must be able effectively to reach and serve the segment; and actionability- the firm must be able to generate effective programmes to attract that segment.

New Technology and Innovation in Financial Services

Recent changes in the technology of financial services, suppliers and delivery systems have produced more assortment, convenience and economy for consumers. All these innovations have changed the face and format of the financial services industry in this era of globalization by introducing new marketing patterns and practices.



Many factors have contributed to make financial services attractive and affordable. These include a progressive deregulation in banking, higher discretionary income; the two income family; rising interest rates; the entry of non banks offering non regulated services; accessible telecommunications and accurate information; mass advertising and promotion of financial services, and new delivery systems (Meidan and Moutinho, 1988).

The implication of these circumstances in the context of globalization is that the roles of new product development, technology and innovations have become paramount. Indeed, the banking industry will have to enter the global market, interest rate or foreign exchange rate fluctuations etc. (beginning with the ECOWAS sub-region) with large numbers of new products which will have an impact on both customers and on the financial institutions themselves.

As Nigerian banks move into the ECOWAS regional market, innovation is envisaged in the following aspect of financial services offerings:

- **Office/home banking:** using a terminal, visual display unit and telecommunication link, a customer (personal or corporate) has access to a range of services, e.g. payment services, financial management services and reporting services within the home or office.

- **Electronic Letter of Credit:** this service enables corporate customers to open or amend a letter of credit in their office and transmit it to the bank instantly. It may stand alone as a single product or form part of the office banking package.

- **Provision of financial information:** financial data and information that are frequently updated are broadcast to consumers' terminals via cable. The service includes foreign currency and interest rates reporting, various rates forecasts, and prediction and commentaries, view data and Reuters are typical examples.

- **Global cash management:** this service is made possible by the breakthrough in telecommunications technology which has facilitated the transfer of information over long distances. It is particularly useful for international corporations which have bank accounts worldwide. The service allows customers to transmit instruction about accounts, transaction deals (details of debit and credit entry) and foreign exchange deals. The customer can, therefore, minimize borrowing cost, maximize returns on surplus funds and hedge against interest role on foreign exchange fluctuations.

- **Self- Service Bank:** This is a bank office with limited staff but a whole range of fully automated terminals which allows customers to transact banking activities via self-service e. g the lobby ATM of Verbraucher bank in West Germany.

- **ATM Cash Dispenser:** ATMs have prevailed in the UK and other parts of the world for a number of years but the present is to build more functions into the quick cash dispenser. Moreover to obtain sufficient transaction volume to justify its operating costs, some banks are sharing their ATM's.

- EFTPOS is a cashless and chequeless means of shopping and payment at the point of sale. Its operations require a debit card, a personal identification number (PIN) and a POS terminal that is connected with the bank's mainframe. Its main feature is that the customers and retailers account will be debited and credited respectively with the purchase amount at the same time.

- **The Smart Card:** This is a memory card with traditional magnetic strip and a programmable micro-chip invented by a Frenchman (Roland Moreno) in 1974; it has been taken seriously by the world's banks and credit card companies only over the last one decade or so. It operates in an off-line environment and its many uses include: ATM transactions, EFTPOS transactions, Videotex and as a personal identification card. At present, it finds its major success in France with government support. This means that the product will have a high rate of adoption in all the Francophone countries including those of ECOWAS sub-region.

- **A Total Systems Approach:** Packages or systems of financial services make sense for the consumer because they conveniently provide a total solution to the financial problems facing him/her. They make sense for the financial constitution because, built into the concept is an automatic vehicle for increasing the number of financial services used per customer. This is highly desirable because experience has shown that the more relationships a customer has with the financial institution, the less likely he/she is will switch financial institutions.

Critical Success Factors for New Consumer Financial Services

The research on success factors that has been published mostly focused on industrial products (Cooper, 1986; Cooper and Rleinschmidt, 1987). But Langeard *et al* (1986) identified five key areas in financial service development. These are: a unique service concept, a well identified market segment; a specialized easy to duplicate delivery system; a narrow core offering; a clear, easy to remember service image. However, Easingwood and Storey (1999) identified the following attributes that are associated with successful new financial products:

- **Targeting Through Direct Mail:** This factor suggests that successful targeting of financial services is achieved much more through the use of direct mail than it is through the use of targeted advertising. In order to target appropriate segments, the banks need to have a large database and also the capability to select members of the target segment from this database.

- **Overall Quality:** This is very much a complication or quality components, including the quality of the product itself compared to competitive products and the quality of the product itself compared to competitive products and the quality of the delivery system plus the high quality of the after sales services, as well as a good fit between the product, its delivery and the organization structure.

- **Communication Strategy:** This represents the effectiveness of the promotional programme, particularly the advertising strategy. In addition, the effectiveness of the communication strategy is linked to technology leadership (superior product technology, superior delivery system technology as well as superior use of technology in identifying customers' needs). Technology can also be used as a point of differentiation for the organization.

- **Product Fit And Internal Marketing:** This describes the support the product receives and its fit with the organization. It appears that products that complement or extend the existing product line are more likely to receive the support of a well trained branch network staff than products not fitting in with the organization so well. This is not surprising when it is recalled that a big bank in Nigeria may offer 200-300 services so that any new product that competes with these existing products will not receive much support.

- **Technology:** Technology is used partly as a tool to help manage the account (i.e as on a cost control) but also more positively to give value to the consumer such a s by providing individualized service. Technology is also used as a point of differentiation for the organization, and to aid in the development of long- term relationship.

- **International Support:** An intermediary network is needed to give support to the financial products in diverse areas such as quality service, good financial returns, assistance of the customer, etc.

- **Market Research:** The effective use of market research into customer needs improved the product. Market research is used to test responses to product ideas. The product can be differentiated for different market segments in the world. Effective test marketing helps the product strategy, and the product can continuously be updated to meet the changing customer needs.

- **Differentiating Product:** The product must be seen to be innovative and should offer unique benefits to the customer.

- **Low Price:** The product should be relatively low priced. The product should be conceived and implemented in response to a market opportunity or threat.

Conclusion

With the outline of the above factors, it is glaring that global success in the financial services is rarely due to the effect of a single factor, but due to combinations of attributes. However, four of the factors have been found to be highly correlated with success: overall quality, differentiated product, product fit and internal marketing, and use of technology (Easingwood and Storey, 1999). In addition the globalization efforts of the CBN must originate on sound basis of satisfying and saturating the home market with financial products before extending to the immediate and contiguous countries in ECOWAS, then to the other areas of the world. Given the spread of the subsidiaries of the banks, the area seems to be well covered for now which can only get better with time. The process can be further accelerated with the encouragement of trade between the nations of the sub-region with unique products for member countries as it will strengthen the body until the economic union envisaged becomes a reality. In doing this, the financial institutions will have to introduce products that are timely to these various markets. However, the delivery of these products will be done electronically and technologically to save time and space (which is about globalization). Regulation of Multinational Banks (MNBs) is subject to the laws of the environment where they operate and especially of the home country rather than the host country.

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