

Interest Rates and Fixed Deposits

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Abstract

This research is centered on interest rates and fixed deposits from a developing economy. The proposed study consisted of all 27 branches of ABC Finance PLC. A total of 135 customers were interviewed from 5 customers from each branch. The sample was identified through non probabilistic sampling technique. The sample was selected to ensure the characteristics of different age groups, occupations along with gender differences. The data was collected through Questionnaire. All questions are measured on a 5 point likert scale. In order to identify the factors affecting the managerial problem, the questionnaire was conducted based on 7p's. other areas discussed in this work are: psychographics profile, market development, marketing communications, distributions, pricing, relationship management, industry and competitive structure based on porters 5 forces – financial sector of Sri Lanka, factors affecting winning and retaining fixed deposit customers in company ABC, twenty (20) customer retention strategies, and fifteen (15) customer retention strategies that work.

Keywords: Interest Rates, Pricing, 5 Point Likert Scale, Financial Sector, Interview, Winning and Retaining Fixed Deposit Customers, Relationship Management, Competitive, Structure, Non-Probabilistic Sampling Technique, Marketing Communications, and Customer, Retention Strategies

Introduction

Company – ABC PLC

The Industry sector is financial services, which has History of eight (8) years, with number of branches of twenty seven (27). Total liabilities (funding) for the company comprise the deposit base, bank overdraft facilities, term loan facilities obtained from banks, securitized borrowings, debentures and other borrowings. A major portion of the funding has been obtained from public deposits which accounted for

Approximately 80% of total liabilities. Out of the total deposit base, fixed deposit accounted for 97%. Deposits, is the strongest indication of public confidence. Fixed Deposit product is offered to the customers with the strength of the trust and respect well earned over the last 10 years.

Product – Fixed Deposit

Maturities available (from 1 month to up to five years):

Refer below information.

Interest Rates Schedule								
Current Rates of Fixed Deposit Interest with effect from 18 th August, 2015								
Period	Senior Citizen (Above 55 years)				Normal			
	Monthly	AER	Maturity	AER	Monthly	AER	Maturity	AER
1 Month	-	-	6.50%	6.70%	-	-	5.50%	5.64%
3 Months	7.00%	7.23%	7.50%	7.71%	6.00%	6.17%	6.50%	6.66%
6 Months	7.50%	7.76%	8.00%	8.16%	6.50%	6.70%	7.00%	7.12%
1 Year	8.50%	8.84%	9.00%	9.00%	7.50%	7.76%	8.00%	8.00%
2 Years	10.00%	10.47%	11.00%	10.45%	9.00%	9.38%	10.00%	9.54%
3 Year	10.50%	11.02%	12.00%	10.79%	9.50%	9.92%	11.00%	9.97%
4 Years	11.00%	11.57%	13.00%	11.04%	10.00%	10.47%	12.00%	10.30%
5 Years	11.50%	12.13%	13.50%	10.87%	10.50%	11.02%	12.50%	10.20%

Fixed Deposit (Minimum of Rs.5,000/-)

****The above rates are indicative and are subject to change based on Central Bank directions**

Fig 1

- Important: Rates are subject to change based on the Central Bank Direction.
- Interest payable at maturity or monthly
- Rates depends on the Quarterly weighted average yields of 364 day Treasury bills

Table 1

Year	Quarter	Quarterly weighted average yields of 364 day Treasury bills
2012	Q1	9.23%
	Q2	10.82%
	Q3	13.79%
	Q4	14.65%
2013	Q1	13.82%
	Q2	12.45%
	Q3	12.21%
	Q4	11.75%
2014	Q1	10.68%
	Q2	8.01%
	From Q2 – no change	8.01%

Ceiling rate is above rate + a margin prescribed by the Central Bank. E.g. Less than one year -3%, 1 to 3 years- 4%, 3 to 5

years -5%. One percent additional interest rate can be given to the senior citizen over age of 55 years.

Issue: Number of deposit holders is coming down (source: company data)



Fig 2

- Company’s Target market of Fixed Deposits

Table 2

Gender	Occupation	Age	Geographic
Men	• Professionals	25 up ward	urban & Sub urban
Women	• SMES		
	• Senior citizen		

Psychographics profile: Rational decision makers, take calculated risk, forward-thinking.

Market Development: Geographical expansion is part of

market development.

Marketing Communications are TV / Press and outdoor advertising (Hoardings at strategically selected locations + street name boards + Bill Boards).

Distributions: New branches + door step service by marketing staff / personal selling.

Pricing: Competitive pricing strategy - Risk & Return based pricing.

Relationship Management: team for retention of clients (skilled staff in managing relationships).

Fixed deposit maturity

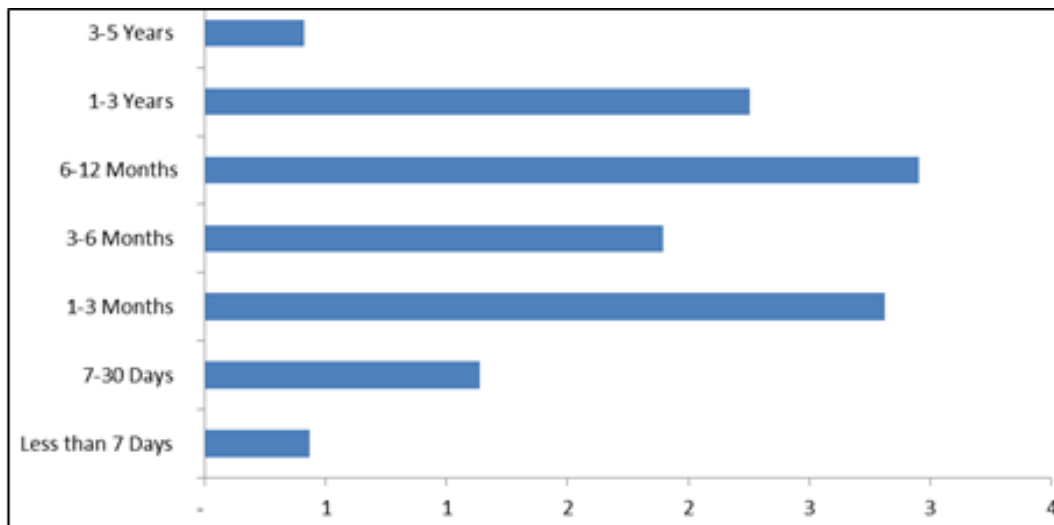


Fig 3

Industry and competitive structure based on Porters 5 forces – Financial Sector of Sri Lanka

- Threat of New Entrants - Low
- Bargaining Power of Customers - High
- Intra Industry Rivalry - High
- Bargaining Power of Suppliers - High
- Threat of Substitutes - Low

- Options available for customers in Sri Lanka as at End 2014 (source: CBSL)

Fixed Deposit Market

No of Licensed Banks	- 34
No of Licensed Finance Companies	- 48
	<u>82</u>

The banking system was operating with 6,554 banking outlets as at the end of 2014. During 2014, the LFC and SLC sector branch network expanded to 1,132. Rivalry is high due to the above explained number of competitors competing with each other for deposits.

Literature Review

Deposits Remain the Cornerstone of Retail Banking (Kane, 2005) [4]. Growing customers’ expectations and, as consequence, an increase of cost of customer acquisition are the main problems in modern retail banking (Titko and Lace, 2010) [11]. The easiest way to grow your customers is not to lose them (Marketing Wizdom, 2013) [6]. Customer satisfaction depends on how products and services meet or surpass customer expectation (Kotler *et al.*, 2000) [5]. As for banks, A. Damodaran considers customer deposits as a raw material, because they will be further transformed into other financial assets (Damodaran, 2007) [2]. Thus, bank customers are consumers and suppliers at the same time. And, it is doubly important for banks to retain profitable clients and to intensify the return from the existing customer base.

Factors affecting winning and retaining fixed deposit customers in company abc are:

Variety of banking services, quality banking services, Electronic Banking Services, Providing credits, The interest rate paid on deposits, Advertising, How employees behave with customers, Location of bank branches, Beauty of interior and exterior space of banks, Numbers of Branches (Abdolbaset *et al*, 2014) [1].

Twenty (20) customer retention strategies

Breakthrough marketing strategies proven to grow your sales and profits by 400 – 1000% are: Reducing Attrition, Sell and then sell again, bring back the “lost sheep”, Frequent Communications Calendar, Extraordinary Customer Service, Courtesy system, Product or service integrity, Measure lifetime value, A complaint is a gift, Blogs, CRM Systems, Loyalty Programs, Magic Moments, Overcome Buyer’s Remorse, Personal Touches, Premiums and Gifts, Questionnaires and Surveys, Regular Reviews, Social Media, Welcome Book (Marketing Wizdom 2013) [6].

Fifteen (15) customer retention strategies that work

Customer retention is incredibly important for growing a sustainable business (Gregory, 2013) [3]. The proven points below are important to consider when evaluating your own customer loyalty strategies because in the customer service *echo-chamber* there is a lot of "hoo rah" about taking care of customers, but little discussion on the business side of things (Gregory, 2013) [3]: Stand for something, Utilize positive social proof, Invoke the inner ego, Use the words they love to hear, Reduce pain points and friction, Realize that budget is negligible, Utilize surprise reciprocity, Make it personal, Speed is secondary to quality, Customers enjoy businesses who know them, Choose the right platform, Make it a communal effort, Get people started, Get ideal customers to be VIPs, Label your customers (Gregory, 2013) [3].

Research Methodology

The proposed study consisted of all 27 branches of ABC Finance PLC. A total of 135 customers were interviewed from 5 customers from each branch. The sample was identified through non probabilistic sampling technique. The sample was selected to ensure the characteristics of different age groups, occupations along with gender differences. The data was collected through Questionnaire. All questions are measured on a 5 point Likert scale.

Table 3

Variable	Measurements
Product	Maturity
	Extra benefits (gift)
	Competitors offerings
	Trustworthiness
Price	Interest Rate preference of the customer
	Withdrawal charges
	Frequency of Rate variability
Promotion	Promotions relating to FD products
Place	Proximity (Home /Workplace)
	Security
	Parking availability
Physical evidence facilities	Physical facilities
	Convenience Layout
Personal	Knowledge of the staff on FD product
	Willingness to help
	Complaint handling
	Professionalism
Process	Timely Delivery of the Services
	Error Free Transactions
	Convenient working Hours

Information required addressing the managerial problem or issue

In order to identify the factors affecting the managerial problem, the questionnaire was conducted based on 7P's

Product: In the study, FD's and services provided for it as the product. In identifying whether there is an issue related to the product following areas had been focused under product. Variety of maturity periods, benefits offered by the FD's, competitors, securities provided for FD's and quality services offered.

Price: In terms of price, for FD's interest rate matters. However, this is generally controlled by Central Bank of Sri Lanka. Interest rates of FD's were evaluated under interest rates in price, customer's sensitivity towards organization and interest rates modification.

Promotion: Promotion helps in win and retains FD depositors. Therefore under incentives (benefits to the customer) provided for FD's promotional strategies (special offers, advertising and corporate identity etc) that helps in increasing sales. Quick accessibility to information was considered to identify issue related to win and retain FD customers.

Place: Place is essential to meet the customer need. Therefore service must be at right time and right place for customer

accept. In order to win and retain FD's, under place, proximity of the branch, convenience of services and location, security of the place (Head Office/Branch) and awareness of FD's facilities in the branch were considered.

Personal: In terms of personal customer satisfaction considered important. In order to win and retain FD's, the ABC Finance PLC must maintain professional and appropriately trained staff. Under personal, attractiveness if the employer towards customer, constantly availability of the employee, staff efficiency and professional in serving customers are considered in evaluating win and retain FD's.

Physical Evidence: Under physical availability of physical facilities that cater customer needs, availability of pleasing and healthy environment and physical layout that support user were questioned to evaluate the managerial issue.

Process: This must satisfy the customer needs. Under efficiency in system, waiting time, interaction, service provided (delivery/after service and convenient options offered were evaluated to identify issue related to win and retain customers, which will further promote the performance of the company. For more insights on corporate performance, see (Nwokwu, Dharmadasa, & Rathnasingha, 2018; Nwokwu, Atapattu, & Azeez, 2019; Nwokwu, 2018; Nwokwu, Rathnasingha & Pradeep, 2019) ^[10, 8, 9, 7].

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