Customer Acquisition and Retention in Non-Banking Finance Companies (NBFC)

Subhransu Panda¹, K. Siva Nageswara Rao²

¹ Research Scholar, School of Management Studies, Vignan Foundation for Science, Technology & Research, Vadlamudi, Guntur, AP
² Asst. Professor, School of Management Studies, Vignan Foundation for Science, Technology & Research, Vadlamudi, Guntur, AP

Abstract

Non-Banking Finance Companies (NBFCs) are playing a key role in providing financial support to the unsupported and secure the unsecured population. The broad objective of the paper is to study how NBFCs can increase customer base and its retention. There are various variables investigated, which were anticipated to be the reasons for increase in customer base. These variables involved both employee and customer satisfaction. The data collected is both primary and secondary in nature. The variables investigated are Interest Rate, customer satisfaction over various parameters like service offered, interest rate, staff behavior, and documentation process. For employee satisfaction there were factors investigated like salary, incentives, working hours, flexibility with work and personal interest. Also, there were factors which were analyzed to know how customers can be increased and retained. Factors such as referral program for customers, maintain regular interaction with customers, provide benefits offered by other competitors and provide benefits to loyal customers. The study attempts to identify the relations between above factors and how we can increase customer base and retention thereafter.

Key words: NBFC, MSME, Customer engagement, customer loyalty, customer satisfaction, customer retention

I. Introduction

A satisfied customer is the best business strategy of all” - Michael LeBoeuf, Business Author. Customer satisfaction is the important element of any organization; successful organization is very oriented towards customer[I]. They are customer friendly. In the organization life cycle, customers are placed first, then the profit. That organization who always thinks customer and their satisfaction are having an edge over their competitors, they expand leap and bound. For a long-term association with the company or the product, companies should keep on experimenting on their products and devising products, which will suite to their requirements[II]. So, companies should keep on customizing the product along with the pricing & quality.
of the product and services, this will attract customers and bind with them thereafter[III]. Once customer is into the company’s fold, they offer bundles of other products through cross-selling to keep with them forever[XIV]. So, the feel-good factor is earned through customer satisfaction which is also known as customer loyalty[IV]. If there is no customer, then there will not be any existence of any business entity. With the passage of time, customer base increases and companies try to acquire more customers along with retention of their existing customer[V]. Beside profit earning and target achievement, goal accomplishments, companies are also oriented towards customer satisfaction[XII].

Non-Banking Finance Companies (NBFC) are as important as Banking Sector and provide financial assistance to the larger part of population both in rural and urban spheres[XI]. They are reaching out to the unbanked areas through their bouquet of financial products which complements to the banking sector[VI]. These paves the way for entrepreneurship and innovation under Micro, Small, Medium, Enterprises (MSME) and large chunk of the business family avail loans through NBFCs[XIII]. There are lots of constraints and road blocks for further expansion to the banking sector, which opens the door for NBFCs, and it supports entrepreneurship as well[VII].

II.i. Financial System in India

Ours is a country with robust financial system with one side the banking system and the other side with non-banking finance companies. Both are playing an important role for the economic development of the country, it connects the link between saver and the investor, ultimately leads to wealth creation[VIII].

Financial Systems are important, as it caters to the requirement of traditional business as well as to the new start-ups[X]. These firms help individuals and small business enterprises through working capital loan either daily, weekly, monthly collection mechanism and provides some other loans like personal loan, vehicle loan, etc. and aid to millennials either salaried or self-employed[XI].
II.ii. Financial Institutions

Financial institution can be classified under two categories as Banking Sector or Non-Banking Sector to sell asset as well as liability products to customers for their financial stability. Role of a Non-Banking Financial Company: (a) Upliftment of the downtrodden (b) Helps and increase in wealth creation, (c) Significant employment generation, (d) Economic development, (e) Irreplaceable supplement to bank credit in rural segments, (f) Mobilization of financial resources.

II.iii. NBFCs in India

Non-banking finance companies (NBFCs) are playing a pivotal role for the economic stability of the country. They are reaching out to the unbanked areas with their customized products. In many of the areas, business community considers them as a bank because their products are financial friendly in nature. They are filling the important gaps in lending to the financially excluded people in nuke and corner of the country. For that reason, RBI is very much supportive and coming with revamping structure of NBFC policy and various committees have formed to strengthen NBFCs.

NBFC are also categorized based on activities undertaken:

| Type of NBFC                                           | Activity                                                                 |
|-------------------------------------------------------|--------------------------------------------------------------------------|
| Asset Finance Company (AFC)                           | Financing of physical assets including automobiles, tractors and generators. |
| Loan Company                                          | Provision of Loan Finance                                                |
| Investment Company                                    | Acquisition of securities for purpose of selling                         |
| NBFC-Infrastructure Finance Company (NBFC-IFC)        | Provision of infrastructure loans.                                      |
| Infrastructure Debt Fund-NBFC (IDF-NBFC)             | Facilitation of flow of long-term debt into infrastructure projects      |
| NBFC-Micro Finance Institution (NBFC-MFI)            | Credit to economically dis-advantaged groups                             |
| NBFC-Systemically Important Core Investment Company (CIC-ND-SI) | Makes investments and loans to group companies.                        |
| NBFC-Factor                                           | Acquisition of receivables of an assignor or extending loans against the security interest of the receivables at a discount. |

At an aggregate level, the number of registered NBFCs with RBI has declined from 11,402 at the end of September 2018, to 10,190 as at the end of March 2019. The total liabilities of the NBFC sector is Rs. 26.01 lakh crores out of which Rs. 22.22
lakh cores are accounted for by NBFCND-SI while Rs. 3.79 lakh crores are of the NBFC-D.

II.iv. MuthootFincorp Ltd.

MuthootFincorp Limited (MFL) is a flagship finance company under the broad MuthootPappachan (MPG) and it’s based out at Trivandrum. It caters to the bottom of the economic period i.e. BPL & lower income groups through its various retail products. It is registered with the Reserve Bank of India as a non-deposit taking non-banking finance company (NBFC).

MuthootFincorp Limited provides financial services through its wide network of 3500 + branches in India with average walk in of over 85,000 customers in every day. The various products are Gold Loan, Business Loan / MSME Loan, Housing Finance, 2W Financing, Micro-finance, etc. Its also provides wealth management services and varied insurance products like Home Insurance, Health Insurance, Motor Vehicle Insurance, etc.

In the 2017-18 financial year, MuthootFincorp Ltd. Reported

Gross revenue: Rs. 2108.87 Crores, with an increase of 7.45% (YoY)
Profit after Tax registered Rs. 151.53 Crores with an increase of 30.55%(YoY)
EPS for the year rose to Rs. 7.82 from Rs. 6.22, i.e. an increase of 25.72%
Income from loan increased to Rs. 2094.61 Crores from the previous year, with an increase of 7.55%

MuthootFincorp Ltd. is primarily a gold loan finance company, having a mission to provide timely credit to the underprivileged strata of the population through its branch network in a easy and simple way. Products have been customized and there are a large chunk of people, who avails their facility on a daily basis. The major strength as mentioned above include the position of MuthootFincorp Ltd. Is holding in Gold loan and MSME segment, where even after having many competitors company can build a healthy customer base. MuthootFincorp Ltd. distinguishes themselves from competitors in terms of customer service and it was also observed in the field research that customers are satisfied with the service offering. Apart from this the Geographic location also aids to the scalability of the company. With nearly 3542 branches pan India, company hold a good national presence. Company also has wide range of products to different customers and different segments; this customization of products and wide portfolio creates affinity for the company amongst customers. And lastly the increasing profit, we observe the over CAGR of 24.43% in profit which is a healthy increase over the period of past 4 years.

III. Objective

a. To identify and study the factors affecting the customer satisfaction.
b. To identify and study the factors affecting the employee satisfaction
c. To study various drivers for employee engagement
d. To identify the relationship between Customer Satisfaction and its loyalty

e. To develop the strategies using which customer base can be increased at MuthootFincorp Ltd.

f. To develop the strategies using which customer can be retained at MuthootFincorp Ltd.

g. To design a conceptual model of building customer loyalty through employee engagement

IV. Research Methodology

The research methodology is defined for two parts of the project

- How we can increase customer base for MuthootFincorp ltd.
- How we can retain the existing customers

In the first part where we need to identify the ways using which we can increase the customer base, according to previous researches it was concluded that there is a positive correlation between customer base and employee’s satisfaction. As employee is the direct link between the company and a potential customer, the motivation level of employee can decide the efforts he/she will take in order to convert a potential customer into a customer.

To measure the overall satisfaction level of employees, the survey was conducted with 88 employees from 26 Branches in Chittoor District of Andhra Pradesh.

IV.i. Research Tool

The below mentioned tools were used while collating data from field.

- a) Structured Interview (for employees)
- b) Structured Questionnaire (for customers)
- c) Secondary sources namely report, announcements, case studies, brochures, pamphlets, leaflets.
- d) Focused Group Discussion (FGD).

IV.ii. Sampling Design

The sampling technique which was used during collection of data was a “multi-stage sampling” technique. Sample of 249 customers and 88 employees were collected in three different areas of Chittoor district in the state of Andhra Pradesh. The survey was designed to cover the customers, who visited the branch during their financial transactions. These customers were mainly existing customers. Further classification of data for customers is given below:
As we can observe most of the customers are new customers and regular customers, very few old customers are in the studied sample.

V. Key findings and analysis
V.i. Customers analysis

The quantitative data of customers were analyzed to find out satisfaction score of each parameter i.e. Interest Rate, Documentation, Staff Behavior, Service. The results were analyzed and compared across four parameters i.e. Very Satisfied, Satisfied, Dissatisfied, and Very Dissatisfied. Further, the quantitative results were supplemented and validated by qualitative aspects like interviews and interactions with Branch Managers and Area Managers.

| Customer Satisfaction | Interest Rate | Service | Documentation | Staff Behavior |
|-----------------------|---------------|---------|---------------|----------------|
| Very Satisfied        | 21            | 129     | 138           | 158            |
| Satisfied             | 84            | 116     | 101           | 89             |
| Dissatisfied          | 107           | 4       | 10            | 1              |
| Very Dissatisfied     | 37            | 0       | 0             | 0              |

| Satisfaction Score    | 58.7          | 87.2    | 87.5          | 90.1           |

Average Satisfaction Score 80.875

Data analysis Table 1
To analyze the data, we calculated satisfaction score of each parameter, we weighted each satisfaction level and then multiplied it by the number of respondents. The weights were given as Very Dissatisfied (10%), Dissatisfied (20%), Satisfied (30%), and Very Satisfied (40%). The overall score is calculated out of 100. The final weighted satisfaction scores (WSS) are as follow:

- Interest rate – 58.7
- Service – 87.2
- Documentation – 87.5
- Staff Behavior – 90.1

We can conclude from this evaluation that, the only segment where improvement is required in interest rate for ultimate customers satisfaction. Further to evaluate the overall company performance we analyzed the 4Ps of Marketing Mix i.e. Product, Price, Promotion and Process.

| Response  | Interest Rate | Documentation and Staff Behavior | Customers recommendation | Customer Portfolio Mix |
|-----------|---------------|----------------------------------|--------------------------|------------------------|
|           | Price         | Process                          | Promotion                | Product                |
| Excellent | 21            | 148                              | 37                       | 5                      |
| Good      | 84            | 95                               | 182                      | 10                     |
| Average   | 107           | 6                                | 29                       | 30                     |
| Poor      | 37            | 0                                | 0                        | 204                    |

| Weighted Score | Interest Rate | Documentation and Staff Behavior | Customers recommendation | Customer Portfolio Mix |
|----------------|---------------|----------------------------------|--------------------------|------------------------|
|                | 58.7          | 88.8                             | 75                       | 31.4                   |

| Average Score | 63.475        |

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To analyze the above data, weighted score was calculated; the score is out of 100 and shows how much excellent or poor one of the 4 Ps is. To conclude from the above scores, we can see that Customer portfolio mix and price are poorly rated, with both having below average score we say certain recommendation and improvement is required on these two parameters. If we observe the Process and Promotion side of the 4Ps, both have scored above average score, but again certain recommendations can be made to the promotion side where maximum customers can be shifted to Excellent response range.

V.ii. Interest rate

249 respondents were asked if the interest rate at MuthootFincorp is high, the responses were as follow.

From the above pie chart, it is clearly visible that customers perceive interest rate at MuthootFincorp is high. And the customers are perceiving that is as high as 70%.

IV.iii Customer Portfolio Mix

Respondents were asked, what all products they are purchasing from MuthootFincorp?

Further it was analyzed how many customers are their seeking multiple products from MuthootFincorp.
If we observe and analyze above two graphs and pie chart, we can say that maximum number of customers are focused towards Gold Loan and MSME and comparatively very low customers are there in Third Party Products segment.

V. Employees Analysis

V.i. Employee engagement and satisfaction

As mention earlier in the report, employees are the crucial part of this research as employees are direct link between the customers and the company. If the employee is satisfied, he/she is motivated to perform his job with best efforts, else wise some lags can be observed. Hence, this can affect the company both positively and negatively. By employee engagement, we mean how much employee is engaging himself/herself in the assigned job. It can be inferred that the employee engagement and customer satisfaction are positively correlated and these two are further correlated to the company’s profitability.

There were several factors that were responsible for employee engagement and satisfaction. These factors were; Salary, Working Hours, Incentives, Work Environment, Flexibility with work and Personal Interest. Again, these factors were mapped on five parameters of satisfaction level i.e. Very Satisfied, Somewhat Satisfied, Neutral, Somewhat Unsatisfied and Very Unsatisfied. The parameters were weighted and a weighted score out of 100 of each factor was calculated to observe the areas where improvement is required.
Analyzing the respondents’ data on satisfaction level, we can see that there are two factors where scores are below average i.e. Salary with weighted satisfaction score of 18.85 and Incentives with weighted satisfaction score of 14.04. This suggests that certain improvements are required in these two factors as majority of employees are unsatisfied with salary and incentives part. It also signifies how other factors like Working Hours and Flexibility with work are keeping the employee satisfied at some extent.

Further employees were asked to rate factors which can help retain existing customers at MuthootFincorp Ltd. Several factors were given like:
- By providing benefits to loyal customers
- By Providing benefits offered by other competitors
- Maintain regular interaction with customers
- Referral and Incentives Programs

Employees were supposed to mark on 5-point Likert scale. Giving them option between Strongly Agree and Strongly Disagree. Employees were asked this question as they work at the ground level and are in direct contact with the customers, so it is believed that, employee can understand the customer side better than anyone else in the hierarchy. 88 Employees responded and weighted score technique is used to evaluate the factors.
The above analysis shows the weighted score (Higher is better) of employees’ perceptions on how we can retain existing customers. The average score came out to be 25.2 and factors above average score are “By providing benefits to loyal customers” and “By having referral or Incentive Programs”

VI. Conclusion

The factors involved in increasing the customers base and retaining existing customers narrow down to Customer Satisfaction, Employee Satisfaction and Marketing. When we evaluated the various factors responsible for customer satisfaction, it was observed that the customers are not satisfied with the current interest rate offered by MuthootFincorp Ltd. The Customer WSS on different factors are Interest rate – 58.7, Service – 87.2, Documentation – 87.5, Staff Behavior – 90.1 with average score of 80.875. Also, it was observed that other factors like Staff behavior, Documentation and Service are significantly responsible for customers satisfaction. On evaluating customers on 4Ps of Marketing Mix; it was observed that Product and Price needs improvement whereas Promotion and Process scored satisfactory. The product distribution was heavily skewed towards Gold Loans and MSME, implying other products also need significant attention in terms of marketing and development. Customers portfolio matrix is also heavily skewed towards single product portfolios, 82% of the respondents hold only single product. ImPLYING the focus required on cross selling and since majority of single product customers were gold loan and MSME customers, implying awareness about other products is required. In the second part on observing the employee satisfaction, we concluded that
employees are heavily unsatisfied with salary structure and incentives policies of Muthoot Fincorp Ltd. Lastly on asking about the strategies company can adopt to retain existing customers, we concluded that “By providing benefits to the loyal customers” and “By having incentives and referral programs” we can improve in retaining significant number of employees.

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