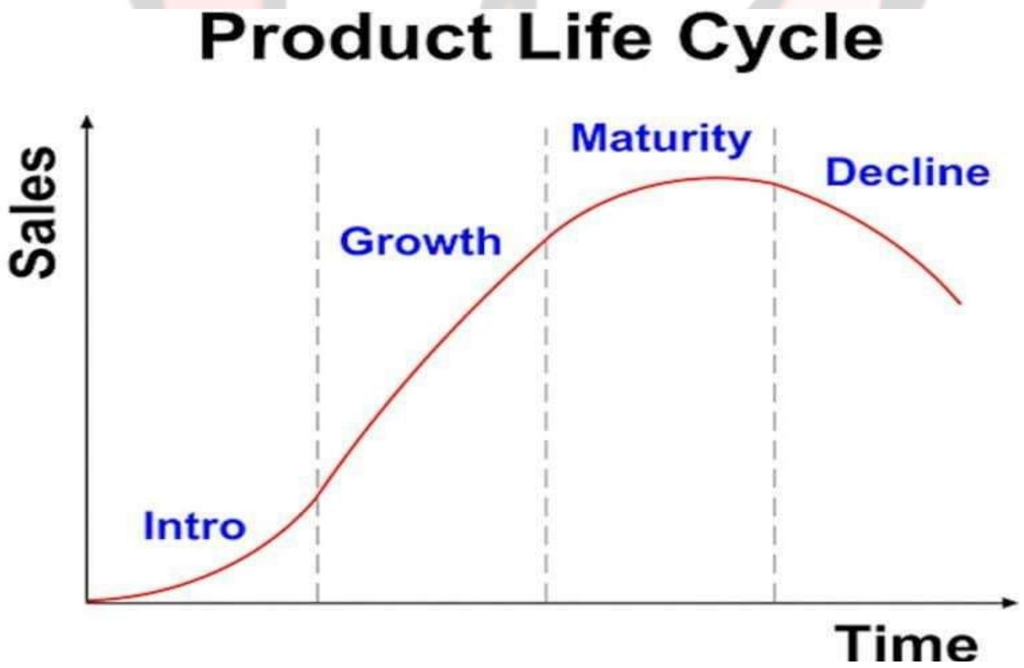
PRODUCT DEVELOPMENT PROCESS

PRODUCT

A bank **product can be defined as anything** that can **provide the satisfaction, use, and return desired by the customer**.

PRODUCT LIFE CYCLE

- It is the **process a product goes through from** when it is first **introduced into the market** until it **declines or is removed from the market.**
- The life cycle has four stages—**introduction, growth, maturity, and decline.**



STAGES OF PRODUCT LIFE CYCLE

INTRODUCTION STAGE

- When a product is introduced, the **sales volume will be low** and **revenue** from the products will **not be sufficient to cover the cost** of producing, marketing, and servicing it
- In the introduction stage, it happens because it **takes time for the product to occupy the minds of the customers**.

GROWTH STAGE

- In the **'growth stage, which is the second stage** in the product life cycle, the **sales volume of the product picks up** and the product is likely to break even and **start generating profits for the organization.**
- During this period **consumer awareness of the product** will be and **that will result in growth**.

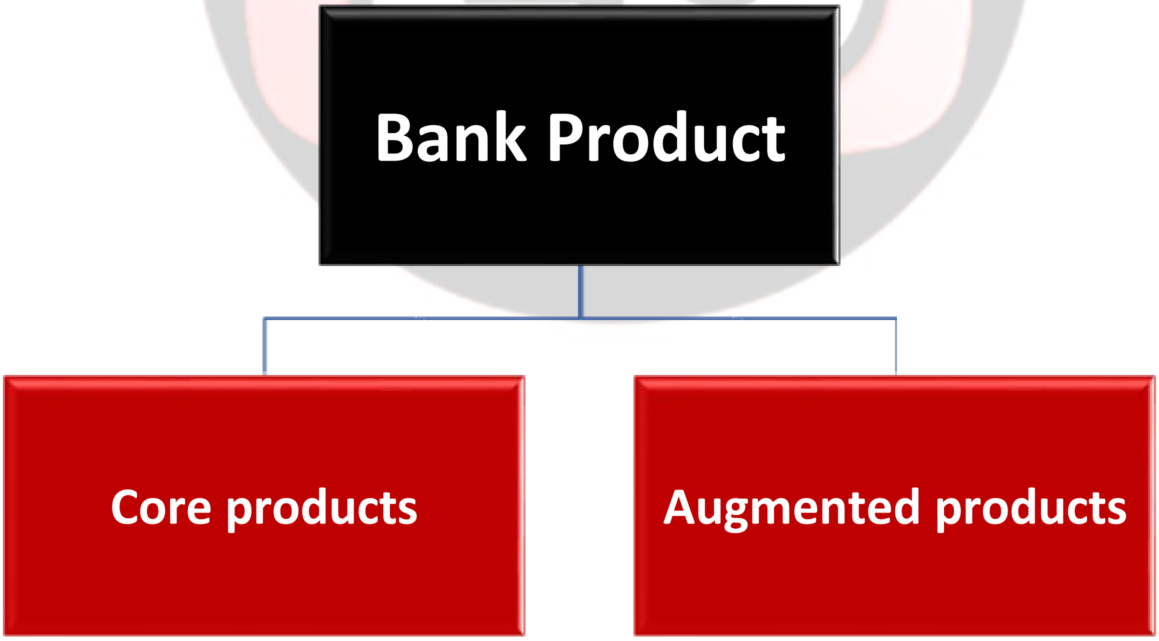
MATURITY STAGE

- In the third stage which is the **'maturity' stage,** there is **more growth and sales volume peaks.**
- There is a wide customer base which will **result in the maximization of sales** with the inflow of business and profits.

DECLINE STAGE

- **The final stage** of the product life cycle called as **"decline stage'**. In this stage, the **product becomes less attractive** to the consumers due to various reasons which **results in a drop in sales volume and profits.**
- This **stage if not attended to properly will lead to product death**. This can be avoided by fine-tuning and value-adding to revitalize the product for continued acceptance.

YPES OF BANK PRODUCT ON THE BASIS OF PRODUCT LIFE CYCLE



CORE PRODUCTS

- Core products are essentially those products that **define what kind of business.**
- In the banking scenario, some of the core products are Savings Banks, Current Account Term Deposits, Recurring deposits, Cash Credit, Overdrafts, Retail Loans, Term loans, Drafts, etc.
- These core products are **essential and need not have strong marketing content.**
- These products will have a **stable life in the growth stage of the product life cycle** because they are indispensable for the different segments of customers.

AUGMENTED PRODUCTS

- These products are **developed from formal products** by **combining two core products** and **adding value to the product** in terms of **benefits and comforts** to the customer.
- In the present-day scenario, a **core Savings bank will include an ATM/Debit Card and a Cheque Book, and an augmented product** will include Internet Banking, Mobile Banking, and a group health or life insurance product

tagged to it.

DEPOSIT PRODUCTS

In the deposit products category, the deposit products can be classified into **Savings Deposits, Current Deposits, Term Deposits, and Combination Deposits.**

Demand Deposits

It refers to funds held in a bank account that **can be withdrawn by the account holder** at any time **without any advance notice or restrictions**.

SAVINGS DEPOSITS

- It also known as **savings accounts**, are bank accounts that are designed to **help individuals or households save money over time**.
- These accounts offer a **safe and secure place to store funds**

  while **earning interest on the deposited amount**.

FEATURES

- Savings deposits are intended for **long-term saving and future financial goals.**
- Savings deposits **earn interest, allowing money to grow over time**.
- **Withdrawals** from savings deposits are allowed, but there **may be limits to encourage saving.**
- Savings deposits are generally considered **safe due to financial regulations and deposit insurance.**
- Some savings accounts **have minimum balance requirements** to avoid fees or gain additional benefits.

BASIC SAVINGS BANK DEPOSIT ACCOUNT (BSBDA)

Savings bank account has been **replaced by a "Basic Savings Bank Deposit Account"** by RBI as per guidelines dated **10th August 2012** and accordingly banks have been advised to offer a 'Basic Savings Bank Deposit Account' (BSBDA).

FEATURES

- The 'Basic Savings Bank Deposit Account' should be considered a **normal banking service available to all**.

- This account shall **not have the requirement** of any **minimum balance.**
- There will be **no limit on the number of deposits** that can be made in a month, account holders will be **allowed a maximum of four withdrawals in a month, including ATM withdrawals.**
- BSBDA is subject to **KYC/AML guidelines being issued by RBI from time to time.**
- **Holders of 'Basic Savings Bank Deposit Account'** will **not be eligible for** opening any other savings bank deposit account in that bank.
- If a customer has **any other existing savings bank deposit account in that bank**, he/she will be required to close it **within 30 days from the date** of opening a 'Basic Savings Bank Deposit Account'.

SMALL ACCOUNTS

- If any low-risk individual customer **does not possess either any of the Officially Valid Documents (OVD**) as notified by the Government of India, then "**Small Accounts' may be opened for such an individual.**

- A 'small account' may be opened based on a **self-attested photograph and affixation of signature or thumbprint**.

CONDITIONS

As notified in terms of Govt. of India notification dated **December 16, 2010, BSBDA Small Accounts** would be subject to the following conditions:

- The aggregate of **all credits in a financial year** does **not exceed ₹1 Lakh.**
- The **aggregate of all withdrawals and transfers** in a month does not **exceed ₹10,000**/-.
- The balance at any point in time **does not exceed ₹50,000/-**
- **Foreign remittances cannot be credited** to Small Accounts **without completing normal KYC formalities**.
- **Small accounts** are **valid for a period of 12 months** initially which may be extended by **another 12 months** if the person provides proof of having **applied for an Officially Valid Document**.
- If proper KYC documents are not submitted within the **total time frame of 24 months,** all transactions shall be **blocked in the account.**

- Small Accounts can only be **opened at CBS-linked branches of banks or at such branches** where it is possible to **manually monitor the fulfilments of the conditions**.

INTEREST RATES ON SAVINGS DEPOSIT ACCOUNTS

- RBI **deregulated interest rate** to be paid by the banks on **domestic SB Deposit** vide circular No. DBOD.Dir.BC.42/13.03.00/ 2011-12 **dated October 25, 2011.**
- Accordingly, banks were given autonomy to **determine their savings bank deposit interest rate.**

CONDITIONS

- There shall be a **comprehensive policy on interest rates on deposits** duly approved by the **Board of Directors or any committee of the Board** to which powers have been delegated.
- The rates shall be **uniform across all branches** and for **all customers** and there shall be **no discrimination in the matter of interest paid on the deposits**, between one

deposit and another of a similar amount, accepted on the same date, at any of its offices.

- The rates shall **not be subject to negotiation** between the depositors and the bank.
- Each bank will have to offer a **uniform interest rate on savings bank deposits up to 1 Lakh**, irrespective of the **amount in the account within this limit.**
- Banks have the discretion to of**fer different interest rates for deposits exceeding one lakh rupee**s, but they must ensure that there is **no discrimination in the interest paid on deposits of similar amounts** accepted on the same date at any of their offices.
- Scheduled commercial banks were advised to **calculate interest on savings bank accounts** on a daily basis with effect **from April 1, 2010.**

CURRENT DEPOSITS

- These are bank accounts that are **primarily used for conducting frequent and regular financial transactions**.

- They are typically held by **businesses, corporations, and individuals** who require a **high level of liquidity** and need to make frequent payments or withdrawals.

FEATURES

- There are **no restrictions** on the **number and number of withdrawals** in the account except in certain cases.
- **Overdraft facility** is permitted with prior arrangement.
- **Check books** are issued in all current accounts with certain exempt exceptions.
- RBI directives **prohibit payment of interest** on current accounts except with the prior approval of the RBI.

TERM DEPOSITS

- These are bank accounts where f**unds are deposited for a specified period of time** at a fixed interest rate.
- These accounts offer a **relatively higher interest rate compared to regular savings accounts**.

FIXED DEPOSIT

It is a type of **investment where an individual or entity deposits** a specific amount of money for a predetermined period, typically **ranging from a few months to several years**.

RECURRING DEPOSIT

- It is a type of **term deposit** where individuals can deposit a **fixed amount of money at regular intervals**, typically monthly, for a predetermined period of time.
- At the end of the RD tenure, the d**epositor receives the maturity amoun**t, which includes the **principal amount and the interest earned over the tenure**.

COMBINATION DEPOSIT SCHEMES

- It refers to **financial products or investment strategies** that involve a combination of different types of **deposits or investment instruments.**
- These schemes are designed to **provide investors with a diversified approach** to managing their funds and **potentially maximizing returns** while **minimizing risks**.

KNOW YOUR CUSTOMER GUIDELINES

- It is a **process and regulatory requirement** in the retail banking industry that **helps Banks to verify the identity of their customers** and assess the **risks associated with doing business with them**.
- The KYC process aims to **prevent money laundering, terrorist financing, fraud, and other illicit activities**.

ELEMENT OF KYC

Customer Acceptance Policy

- The Customer Acceptance Policy helps the banks to **determine the types of customers** they are **willing to do business with**.
- This policy outlines the **criteria and guidelines for accepting customers** and **establishing business relationships**.
- It sets **parameters for accepting customers** based on factors such as the customer's risk profile, reputation, purpose of the account, and compliance with legal and regulatory requirements.

Risk Management

- It involves **assessing and managing the risks** associated with **customers and their transactions**.
- Financial institutions need to **identify and categorize their customers** based on the **risk levels they pose, such as low, medium, or high risk**.

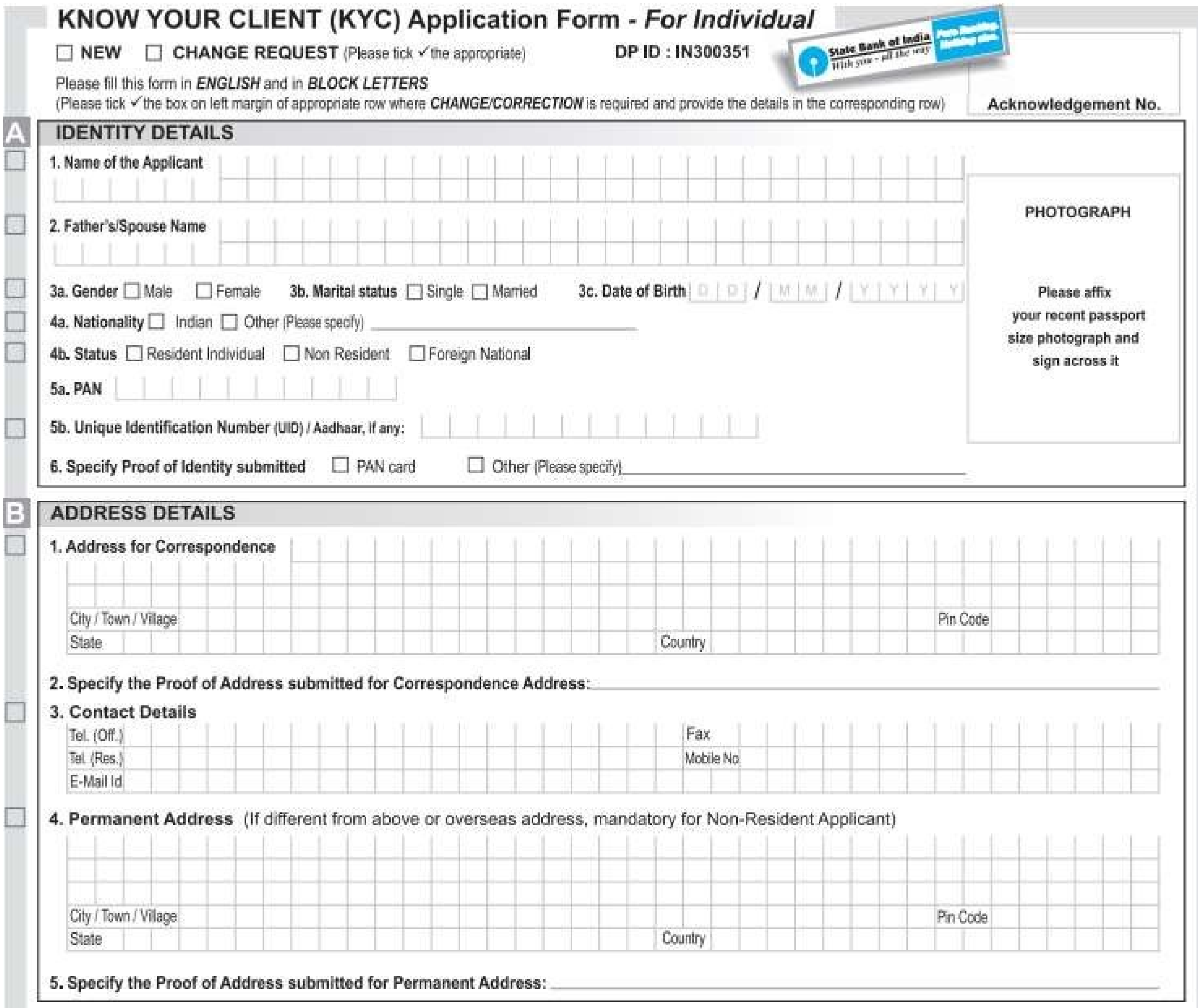
Customer Identification Procedures

- This element focuses on **verifying and establishing** the **identity of customers**.
- The CIP may involve **collecting and verifying identity documents**, conducting background checks, confirming the customer's address and contact information, and utilizing identity verification tools or databases.

Monitoring of Transactions

This involves **tracking and analysing the activities and transactions of customers** to identify any s**uspicious or unusual behaviour** that may indicate potential **money laundering, terrorist financing, or other illegal activities**.

KNOW YOUR CUSTOMER FORMS (KYC FORMS)



KNOW YOUR CLIENT (KYC) Application Form - *For Individual*

☐ NEW ☐ CHANGE REQUEST (Please tick ✓ the appropriate) DP ID : IN300351

State Bank of India

Please fill this form in *ENGLISH* and in *BLOCK LETTERS*
(Please tick ✓ the box on left margin of appropriate row where *CHANGE/CORRECTION* is required and provide the details in the corresponding row)

Acknowledgement No.

A IDENTITY DETAILS

1. Name of the Applicant
2. Father's/Spouse Name

PHOTOGRAPH

Please affix your recent passport size photograph and sign across it

3a. Gender ☐ Male ☐ Female 3b. Marital status ☐ Single ☐ Married 3c. Date of Birth D D / M M / Y Y Y Y
4a. Nationality ☐ Indian ☐ Other (Please specify)
4b. Status ☐ Resident Individual ☐ Non Resident ☐ Foreign National
5a. PAN
5b. Unique Identification Number (UID) / Aadhaar, if any:
6. Specify Proof of Identity submitted ☐ PAN card ☐ Other (Please specify)

B ADDRESS DETAILS

1. Address for Correspondence
City / Town / Village Pin Code
State Country
2. Specify the Proof of Address submitted for Correspondence Address:
3. Contact Details
Tel. (Off.) Fax
Tel. (Res.) Mobile No.
E-Mail Id
4. Permanent Address (If different from above or overseas address, mandatory for Non-Resident Applicant)
City / Town / Village Pin Code
State Country
5. Specify the Proof of Address submitted for Permanent Address:

METHODS FOR THE OPENING OF ACCOUNTS IN BANKS

Private and Foreign Banks

- Opening of deposit accounts is done in a **centralized liability processing center.**
- Application details and supporting documents **are scanned and forwarded to the centralized processing centres** for account opening.

- These banks prioritize centralized processing **to ensure consistency and efficiency across branches.**

Public Sector Banks (PSBs)

- Some PSBs adopt a **branch-level approach for opening deposit accounts**, where the entire process is carried out at the branch itself.
- A **centralized model** is adopted in some other banks and a **partially centralized model** is adopted in other banks.
- In the **partially centralized model**, account **opening, and issue of Passbook** happen at the **branch level** and the issue of **Cheques Book and Debit Cards** are done through a **centralized approach**.

CREDIT PRODUCTS

Consumer loan

It is a credit, lent to an individual for **personal usage for purchasing specific item or service**. With the consumer loan you can purchase **domestic equipment, small household items**, everyday items ro finance travel or other ongoing expenses.

Mortgage

It is a **long-term, secured loan,** whereas you can **buy, build or repair immobile property,** like apartment, **cottage house, parcel of land**.

Auto Loan

Auto Loan is a determined type of loan, whereas **consumer is allowed to purchase desirable car**, new or secondary one.

Overdraft

It is **a financial arrangement** provided by a bank or financial institution that **allows an individual or business** to **withdraw or spend more money** than what is available in their bank account.

Cash credit

It refers to a **financial arrangement** provided by a bank or financial institution where the b**orrower is granted a predetermined credit limi**t, allowing them to borrow funds up to that limit as and when needed

OTHER SERVICES

Remittance Services

In the remittance services, issue of Drafts, Bank Orders/Bankers Cheques, National Electronic Funds Transfers (NEFT), Real Time Gross Settlements (RTGS) are the types of services offered to the customer.

Fee-based Services

Collection of Cheques, Safe Deposit Lockers, Standing Instructions for carrying out the instructions of the customer periodically, Merchant banking services etc.

OTHER FEE-BASED SERVICES – THIRD-PARTY DISTRIBUTION

- Third Party Distribution is an **emerging business model** of the banks to augment fee-based income by **selling products and services of other manufacturers** in the financial and investment space like insurance companies - **life and non- life and also mutual funds, etc.**
- These activities are **called para-banking activities** and the **Reserve Bank of India** has prescribed **rules and regulations for carrying out these activities by banks.**

NEW PRODUCT DEVELOPMENT

It refers to the process of **creating and introducing a new product or service to the market.** It involves the entire journey from **idea generation** and conceptualization to **commercialization and launch**.

STAGES IN NEW PRODUCT DEVELOPMENT

Idea Generation

- New product ideas are **generated from market research** based on **customer expectations** from existing and potential customers.
- It is also generated **in-house from the employees of the banks**. Suggestions will be invited both on refining the existing products as well as ideas for new products.

Idea Screening

- In this stage, the generated **ideas are evaluated and screened** to determine their **feasibility, market potential, and alignment** with the company's objectives.
- This helps to narrow down the ideas and **select the most promising ones for further development.**

Concept Development and Testing

- The selected ideas are **developed into concepts** that **outline the basic features, benefits, and target marke**t of the new product.
- These concepts are then **tested with potential customers to gather feedback** and assess their acceptance and appeal.

Business Analysis and Market Analysis

- This stage involves conducting a thorough **analysis of the financial viability and business potential** of the new product.
- Factors such as **production costs, pricing, market size, competition**, and **projected sales** are considered to determine the product's profitability and potential return on investment.

Product Development

- Once the business analysis confirms the feasibility of the new product, the **actual development process begins**.
- This includes **designing and engineering the product**, creating prototypes, **conducting testing and quality assurance**, and making necessary modifications based on feedback.

Market Testing

- Before a full-scale launch, the new product is often **introduced to a limited market or specific target audience** to gauge its performance and acceptance.
- This helps gather valuable insights and **make any final adjustments or improvements** before the official launch.

Commercialization

- The final stage involves **the full-scale launch and commercialization of the new product.**
- This includes developing **marketing strategies, setting pricing, creating promotional campaign**s, training sales teams, and ensuring the availability of the product in the market.

CONSTRAINTS IN NEW PRODUCT DEVELOPMENT

Heterogeneous Customer Base

Different branches have **diverse customer segments**, **making it challenging** to develop a **single product that satisfies all customer needs.**

Technological Revolution and Product Obsolescence

Rapid technological advancements can lead to **fast product obsolescence** and **changing customer preferences**, impacting the product life cycle and economics of new products.

Existing Product Range

Public sector banks with a **wide range of existing products may face challenges** in **new product development**, requiring a focus on product pruning rather than introducing entirely new offerings.

Idea-to-Product Conversion

While the ideation stage may be appealing, **converting an idea into a viable product** with business potential **can be difficult**, posing a constraint.

Staff Resistance

Some employees may **resist new product development** due to concerns about **increased workload, job security**, or relocation, creating attitudinal constraints within the organization.

PRODUCT MANAGEMENT

- It is a **discipline and strategic approach** focused on **developing, launching, and managing products or services** throughout their lifecycle.
- It involves **overseeing all aspects of a product**, from its conception and development to its launch, marketing, and ongoing performance in the market.

- The primary goal of product management is to **ensure that the right products are created** and **delivered to meet customer needs** and achieve business objectives.

TYPES OF PRODUCTS

Generic Product

It refers to the **core, unbranded, and undifferentiated commodity**. In banking, examples of generic products include **savings accounts, current accounts, term deposits, and drafts**. These products form the foundation of banking services.

Expected Product

- The expected product represents the **minimum conditions and features** that **customers anticipate from a product**.
- In a savings account, customers expect **features like easy money withdrawal, check collection, and balance tracking**.
- Banks incorporate these expectations into their product structure, often providing services like **passbooks, check books, and convenient check collection facilities**.

Augmented Product

- The augmented product involves **voluntary enhancements or enrichments** made by marketers to add value to the core product.
- These extra **features differentiate the product and provide added convenience** or benefits to customers.

Potential Product

- The potential product refers to **future possibilities and innovations** that could further **attract and retain customers**.
- It involves suggestions, new ideas, and redesigning of existing products.

PRODUCT POLICY

- It refers to the **set of strategic decisions and guidelines** that govern the **development, management, and marketing of products** and services offered by a bank to its retail customers.
- It involves defining the bank's product offerings, **features, positioning, and differentiation to** cater to the specific needs and preferences of retail customers.

Appraisal of the product line and individual products

- This involves **evaluating the existing product line and individual products** offered by the bank.
- The bank assesses their **performance, profitability, customer demand**, and alignment with market trends.
- It helps identify **any gaps or areas for improvement** in the product portfolio.

Decisions on product differentiation

- Product differentiation refers to **creating unique features or benefits in the bank's offerings** to distinguish them from competitors.
- In retail banking, this could involve **developing specialized savings accounts, loan products with flexible terms**, or value-added services such as personalized financial planning.
- For achieving this, a tool available for bank marketers is to **highlight the USP of the product**. USP is nothing but a **Unique Selling Proposition' of the product.**

Product positioning

- Product positioning is h**ow a company presents its product to customer**s in a way that makes it **unique, valuable, and different** from competitors. It helps create a strong image of the product in the minds of consumers.
- It involves determining **how the products are positioned in customers' minds** relative to competitors.

Product Branding

- It involves establishing and managing the **bank's brand identity and image**. This includes decisions on **brand name, logo, messaging, and brand values.**
- The brand should **align with the desired perception in the market** and resonate with the target customers.

Decisions on packaging

- Packaging decisions in retail banking **pertain to the way the products are bundled or presented to customers**.

- It includes aspects such as **account features, interest rates, fees, and service levels.**
- Effective packaging ensures that the bank's **products meet customers' needs and preferences** while remaining competitive in the market.

New Product Development

- This refers to the **process of creating and introducing new products or services in retail banking**.
- It involves **identifying market opportunities**, **conducting market research, developing new offerings**, and launching them in the market. New product development helps the bank stay competitive, attract new