

Marketing of Banking Services in Iraq

Waleed Omran

Submitted to the
Institute of Graduate Studies and Research
in partial fulfillment of the requirements for the Degree of

Masters of Science
in
Banking and Finance

Eastern Mediterranean University
February, 2015
Gazimağusa, North Cyprus

Approval of the Institute of Graduate Studies and Research

Prof. Dr. Serhan Cifcioglu
Acting Director

I certify that this thesis satisfies the requirements as a thesis for the degree of Master of Science in Banking and Finance.

Assoc. Prof. Dr. Nesrin Ozatac
Chair, Department of Banking and Finance

We certify that we have read this thesis and that in our opinion, it is fully adequate in scope and quality as a thesis for the degree of Master of Science in Banking and Finance.

Assoc. Prof. Dr. Bilge Oney
Supervisor

Examining Committee

1. Assoc. Prof. Dr. Eralp Bektas

2. Assoc. Prof. Dr. Bilge Oney

3. Assoc. Prof. Dr. Nesrin Ozatac

ABSTRACT

The study is all about identifying the role of marketing in the Banking sector of Iraq. The Iraq financial sector is entirely equipped with banks and has an aggressive, competitive environment, in this case, making a place for newbies is kind a hard to survive. Therefore, this study evaluates the Iraq environment with the help of PEST (Political, Economical, Social and Technological) analysis and Porter's Five Forces to understand the market environment and demands. The study totally based on a theoretical framework because we are not able to get primary data from the concern person, so study covers detailed literature review that defines Iraq's current situation. The final findings are useful for new investors willing to invest in the Iraq banking sector and also for existing bank regulators, so they can develop a strong marketing strategy before entering into the market.

Keywords: Iraq banking services, bank marketing, marketing strategies for Iraqi banks, Iraq's marketing environment for banks.

ÖZ

Bu çalışma Irak'ın bankacılık sektöründe pazarlamanın rolünü tanımlamaktadır. Irak finansal sektörü bütünüyle bankalar ve agresif, rekabetçi ortam ile donatılmıştır. Bu durum dolayısıyla yeni başlayanların hayatta kalması zordur. Bu nedenle, bu çalışma piyasa ortamı ve taleplerini anlamak için PEST (Politik, Ekonomik, Sosyal ve Teknolojik) analizi ve Porter'in beş kuvvetler yardımı ile Irak ortamını değerlendirir. Bu çalışma teorik çerçeveye dayalıdır çünkü bizler ilgili kişilerden birincil verileri alamamaktayız. Böylece bu çalışma Irak'ın mevcut durumunu tanımlayan detaylı literatür gözden geçirmesini kapsar. Son bulgular Irak bankacılık sektöründe yatırım yapmak isteyen yeni yatırımcılar ve varolan banka regülatörleri için faydalıdır. Böylece onlar pazara girmeden önce güçlü bir pazarlama stratejisi geliştirebilirler.

Anahtar Kelimeler: Irak bankacılık hizmetleri, banka pazarlama, Irak bankaları için pazarlama stratejileri, bankalar için Irak'ın pazarlama ortamı.

To my beloved Family

ACKNOWLEDGEMNT

First and foremost, I am thankful to Allah Almighty for me giving health, capability and courage to accomplish my studies. Then, I would like to pay my sincere gratitude to my supervisor Asst. Prof. Dr. Bilge Oney for giving me his valuable time and knowledge that was the great contribution in completion of my thesis. The study is a result of his courage and support in the form of guidance and important suggestions.

Lastly, I would like to thank my family and my friends for always being out there in difficult times for me and also helping me in my study.

TABLE OF CONTENTS

ABSTRACT.....	iii
ÖZ.....	iv
DEDICATION.....	v
ACKNOWLEDGEMNT.....	vi
LIST OF FIGURES.....	ix
1 INTRODUCTION.....	2
1.1 Overview of Banking Sector of Iraq.....	3
1.1.1 The role of Central Bank of Iraq.....	6
1.1.2 Strengths and weaknesses of Iraqi banks.....	7
1.2 Problem Statement.....	7
1.3 Aim of the Study.....	7
1.4 Research Methodology.....	8
1.5 Research Question.....	8
1.6 Significance of the Study.....	8
2 LITERATURE REVIEW.....	9
3 DATA & METHODOLOGY.....	14
3.1 Research Purpose.....	14
3.2 Research Technique.....	14
3.3 Research Model.....	15
3.4 Data collection method.....	15
3.5 Data Validation.....	16
4 THEORETICAL FRAMEWORK.....	17
4.1 PEST Analysis.....	17

4.1.1 Political and Legal Environment.....	18
4.1.2 Economic Environment	18
4.1.3 Socio-cultural Environment	19
4.1.4 Technology	19
4.2 Porter Five Forces	20
4.2.1 Threats of New entrants	21
4.2.2 Intensity of Rivalry among existing competitors.....	21
4.2.3 Bargaining power of Buyers	22
4.2.4 Bargaining power of Suppliers	22
4.2.5 Threat of Substitutes	22
5 FINDING & ANALYSIS	24
5.1 Uncontrollable Environmental factors for banks in Iraq	24
5.1.1 Political and Legal Environment.....	24
5.1.2 Economical Environment.....	25
5.1.3 Socio-cultural Environment	26
5.1.4 Technology	27
5.2 Porter five forces.....	27
5.2.1 Intensity of Rivalry among existing competitors.....	28
5.2.2 Threats of new Entrants	28
5.2.3 Bargaining Power of Buyers	29
5.2.4 Bargaining power of Suppliers	29
5.2.5 Threat of substitutes	30
6 CONCLUSION & RECOMMENDATION	31
REFERENCES	37

LIST OF FIGURES

Figure 1: Banking Structure Of Iraq (Cbi, 2013).....	4
Figure 2: Income Statement Of Central Bank Of Iraq 2012-2013.....	5
Figure 3: Financial Statement Of Iraq At The End Of 2013.....	6
Figure 4: Research Model (Designed By Author)	15
Figure 5: Pest Analysis Scenario (Crackmba.Com).....	17
Figure 6: Porter Five Forces (Mindtools, 2015)	21
Figure 7: Gdp Growth Ratio Of Iraq (Ieconomics, 2015).....	26

Chapter 1

INTRODUCTION

Marketing of banking services is one of the most considerable factors for banking in order to get success. Beside good financial strategies banks also needs to implement strong marketing policies. Like other business sectors, banking sector also has competitive environment and in this scenario, only a good marketing strategy can build their real good will to retain long term customers. Banking and finance industry is more focused on financial loss and gain, along with what they need to consider is: distinctive banking services and products, awareness among customers, competitive advantage, quality as a key feature, and technological advancement. Therefore, I prefer to put light on marketing approaches adopted by Iraqi banks.

The banking sector in western countries took its initial marketing steps back in the early 1950s, whereas in Turkey it introduced in the early 1980s. The new marketing initiatives by banks led them to capture a greater market by advertising their products and services among their existing and prospective customers. The other objective of marketing of banks was to have a positive and a long-lasting impression of it in the customers' minds. Banks apply different marketing strategies to promote their financial services to attract customers (Shyamji Marhotra, 2010).

The need of marketing in banks has evolved out of the changing environment and constant interplay of various interdependent factors. Thus, it helps banks in

identifying customers' financial needs, in the development of suitable banking services and setting up new bank branches. Thus, this study specifically evaluates the Iraqi banks' interest towards marketing of banking services.

1.1 Overview of Banking Sector of Iraq

Iraq has one of the well-developed economies in the world; it is a great example of having a strong banking system. It has 7 state banks, 12 Islamic, 12 foreign, and 47 private banks. The central bank governs the overall banking sector in Iraq. The Trade bank and North bank are two banks with the maximum operations in Iraq. As a result of this banking sector and the high infrastructure in Iraq, people have good investment opportunities (MarcoPolis, 2012).

Historically, banks were owned by the state before Saddam Hussein allowed private banks in Iraq during the late 1990's. Currently, 96% of Iraq's banking assets are managed by state-owned banks according to the U.S. Department of State. The first Iraq bank was established in 1941, called the Rafidain Bank. This was a state-owned bank controlled by the Iraqi federal government. For over fifty years, the Iraqi people did not bank with anything else – there were no private or foreign financial institutions allowed (Irfad, 2015). The figure 1 below shows the structure of the Iraqi banking sector:



Figure 1: Banking Structure of Iraq (CBI, 2013)

Statistics show that private banks' capital rose to 5.9 trillion Iraqi dinars, a result of the execution of the Central Bank's instructions to increase the banks' capital. The

private banks still possess the largest portion of the total capital, a percentage of 78.7%. Private banks' capital is distributed as follows: 53.5% with traditional banks, 22.5% with Islamic banks, and 2.7% with branches of the foreign banks working in Iraq. The state-owned banks represent 21.3% of the banking system's total capital, and the banking system's capital percentage of GDP reached 2.4% in 2012. This means that the banking system is still modest in its structure and in the percentage of its contribution to GDP. Despite the fact that private banks dominate a large percentage of the banking system's total capital, the public sector has a complete monopoly over government financial transactions. The figure below shows the income statement of Central bank of Iraq for the year 2012 and 2013 (CBI, 2015).

<i>In millions of IQD</i>	Note	2013	2012
Revenues			
Interest income	24	443,901	552,120
Interest expense	25	(193,957)	(184,468)
Net interest income		249,944	367,652
Net fee and commission income	26	1,466,354	1,303,959
(Losses) gains on revaluation of gold reserves	23	(532,684)	98,001
Gain (loss) on translation of foreign currency		1,190,581	328,703
Effect of derecognition of foreign creditors balances	19	–	54,858
Other income		75,550	8,455
Profit from operations		2,449,745	2,161,628
Personnel expenses		(39,812)	(29,369)
Depreciation		(1,962)	(2,607)
General and administrative expenses		(78,637)	(38,361)
Profit for the year		2,329,334	2,091,291
Total comprehensive income for the year		2,329,334	2,091,291

Note: Exchange rate: 1 US\$ is equal to 1200 IQD as on published date.

Figure 2: Income Statement of Central Bank of Iraq 2012-2013

1.1.1 The role of Central Bank of Iraq

The primary objectives of the Central Bank of Iraq (CBI) are to ensure domestic price stability and foster a stable competitive market based financial system. The CBI shall also promote sustainable growth, employment and prosperity in Iraq.

<i>In millions of IQD</i>	Note	2013	2012
Assets			
Gold reserve	8	1,903,205	1,860,236
Cash and balances with central banks	9	20,835,296	14,302,088
Balances with banks	10	14,059,312	10,469,338
Held to maturity investment securities	11	51,093,138	50,773,153
Due from Ministry of Finance	12	2,755,519	3,155,520
Foreign currencies investments at International Monetary Fund	13	3,944,023	4,140,272
Property and equipment	17	144,191	119,746
Other assets	14	420,666	421,854
Total Assets		95,155,350	85,242,207
Liabilities and equity			
Liabilities			
Currency issued	15	40,630,036	35,784,805
Treasury bills issued	16	943,166	745,471
Deposits of local and governmental banks	18	42,210,246	34,790,945
Due to foreign governments and banks	19	18,375	22,471
Due to International Monetary Fund	20	3,825,566	3,870,733
Balances due to governmental institutions	21	2,020,541	6,857,796
Other liabilities	22	44,862	36,762
Total liabilities		89,692,792	82,108,983
Equity			
Capital	23	100,000	100,000
General reserve	23	2,069,144	474,511
Emergency reserve	23	517,286	118,628
Revaluation of gold reserve	23	(85,890)	446,794
Retained earnings	23	2,862,018	1,993,291
Total equity		5,462,558	3,133,224
Total liabilities and equity		95,155,350	85,242,207

Note: Exchange rate: 1 US\$ is equal to 1200 IQD as per on published date.

Figure 3: Financial Statement of Iraq at the end of 2013

The functions of the CBI in addition to achieving its primary objectives are: Implement the monetary policy and the exchange rate policy of Iraq, issue and manage the Iraqi currency, establish, oversee, promote a sound and efficient payment system, Issue licenses and carry out any ancillary tasks or transactions within the framework of Iraqi law (CBI, 2013).

1.1.2 Strengths and weaknesses of Iraqi banks

The strengths of Iraqi banks include: under-banked population, high levels of foreign exchange reserves, high GDP growth over the medium-term, large financing needs and several sectors with high growth potential. While the weaknesses are: underdeveloped banking sector, the dominance of state-owned banks, weak financial infrastructure, still weak supervision, slow pace of reforms and challenging operating environment (Sélim Haddad, 2013).

1.2 Problem Statement

Banks success signifies by its large number of customers. No matter how strong financial services a bank has, if their market approach is weak, they can never have a competitive advantage. In order to survive in a competitive environment banks need to examine their marketing strategy, this helps in better banking performance. Due to increased competition among banks and rapidly changing customer's buying behavior, it is crucial for banks have an effective marketing strategy (Azmi & Haroon, 2005). Therefore, the study is about how banks can grow in a competitive environment in Iraq. What are the opportunities and threats of new entrants and old stakeholders in this sector?

1.3 Aim of the Study

The main purpose of this study is to analyze and explore the marketing opportunities, threats, strategies and business environment in Iraq. Which can help new investors and

existing stakeholders in order to decide either they should invest in their banking services or not?

1.4 Research Methodology

The entire research is based on a theoretical framework, existing researches, theories and marketing models to get final outcomes.

1.5 Research Question

The question of the research is as follows:

Q1 = What marketing strategy will be appropriate for banks in Iraq.

1.6 Significance of the Study

The results will verify the importance of marketing in the banking industry of Iraq.

The results will be useful for bank owners and for future research as well.

Chapter 2

LITERATURE REVIEW

This chapter presents the literature regarding a marketing role in the banking sector. Various researchers have talked about the importance of bank services according to different marketing strategies. Some of them support the marketing of banking services by adopting 4'Ps (price, place, product and promotion), some go with customer needs and demand and some focused on advertisement role. Some define, what factors attract customers to avail bank services or purchase banks' product such as credit card, etc.

Bank selection criteria have attracted the attention of scholars in many countries. They propose different methodologies to study the phenomenon. A strategic location of a bank is critical in attracting and retaining customers. A bank that is strategically located records an influx of customers and vice versa. Customers can chip in and seek the various services provided by the bank with ease. Convenience alongside quality and reliability of the services provided by the bank explains its popularity among customers (Ta and Har 2000).

However, there is a crop of scholars who believe that a bank's reputation is one of the most critical factors that makes it popular among customers. Almossawi (2001) argue that a bank's reputation is the most important factor in the selection of the bank's services by customers. Other factors that determine its reliability by the customers

include pocket friendly charges and high interest rates on their savings in commercial banks (Owusu-Frimpong, 1999).

According to Kotler (2001), customers are the most important parties in a business. In fact, they are the reasons why entrepreneurs set up a commercial enterprise. In the ancient times, entrepreneurs did not have reliable methods of attracting and retaining customers. In fact, their customer service was wanting. The cases were attributed to the fact that customers could not access alternatives with ease. New companies would grow rapidly due to the scarcity of a particular product and service in the consumer market. Hence, entrepreneurs paid little if any attention to customer satisfaction. The company could not feel the pinch of reduced customers as it would gain many others without much ado. Hence, its sales volume remained satisfactory by all standards because there were always enough customers to replace those who defect.

Moham (2009) defines bank marketing as the act of examining the consumer market to come up with the most profitable segment. A bank marketer has the duty of assessing the customer needs alongside their level of satisfaction, setting up realistic goals and marketing strategies to make the bank more popular among customers. They introduce services according to the consumer needs and preferences. One of the aspects of marketing that they examine is the business environment. It is important to note that the business environment is not static but dynamic. It keeps on changing; thus, forcing the bank's management to adapt to the new changes.

According to T G Nair (1992), the financial services industry in India is likely to grow to accommodate the gradual rise in the number of customers in need of financial

services. Banks have come up with a smart way of countering competition from other micro-finance institutions. They provide a wide range of services. According to the Canara Bank, 1984 was the “Year of Marketing”. The aim of the campaign was to increase awareness among banks on the importance of customer satisfaction. The findings of the study emphasize on the need to change the attitude, especially among field staff, counter clerks and the marketing department.

George (1975) observes that the study’s aim was to understand the customer needs. During the study, the researcher examined the customers’ social structure, the image of the bank among customers, their judgment over the bank’s financial services and the efficiency of various marketing campaigns. The findings of the study revealed that satisfied customers become not only loyal to the bank, but also hold a positive image of the bank in the public. In fact, they offer referrals to others who are not customers of a particular bank.

According to Syed Asad Akbar (1990) a customer oriented approach is critical in bank marketing. The researcher emphasizes on the need for plan oriented marketing. They suggest that product development should center on the failed strategies to determine the cause of failure.

Lewis and Birmingham (1991) examined the trends in the financial services market. The financial services sector has been changing over the recent years. Many banks offer services that are likely to attract more customers. The case is attributed to the rising levels of competition among financial institutions.

According to Rarhat Hussein (1987), it is critical for banks use effective marketing techniques where they identify the financial market needs in terms of deposits and lending trends. They may also choose the exact market segment that the bank wishes to serve through identifying the needs of the target population. The market department may also encourage more people to use the bank's services and open up new branches to reach a larger client base both domestically and internationally.

Boyder (1994) in his study of consumer choice in the United States' financial institutions found out that interest rates determine the bank's customers and not the facilities or the employees' warmth when handling customers. On the other hand Rajagopla Nair (1994) found out that liquidity and security in rural based financial institutions are the major concerns of customers.

Huu Phuong Ta and Kiir Yin Har (2000) examined the undergraduate bank preferences in Singapore. They used five banks and nine bank selection criterion during the study. After the study, they found out that undergraduate students in Singapore consider the prices and product dimensions when choosing a bank.

Dr.Chidambaram (1994) investigated the promotional methods that banks opt for. They examined social banking, direct marketing and face to face meetings with customers. The researcher suggests that a good marketing mix considers the bank's objectives, emphasizes on the most important services, uses effective methods of addressing customers and builds a positive image of the bank through balancing expenses and efficiency.

F. G. Crane (1990) argues that corporate advertising should be an integral part of the marketing strategies of any financial institution. Hence, managers should pay more attention to corporate marketing campaigns.

Radhakrishnan (1987) studied 'Marketing of Banking Services, Constraints, Challenges and Strategy'. He found out that some of the impediments to bank marketing include charges, competition from companies that offer alternatives and investor consciousness. The branch manager can come up with an appropriate marketing strategy only if they understand the customer needs and preferences.

Chapter 3

DATA & METHODOLOGY

This section discusses research methodology used to prove study objectives. First, it covers the purpose of the research, why we chose this topic, research technique to get the final results, data collection sources and research model. Thereafter, the theoretical framework is also discussed that would be to use in analyzing the data to drive end results.

3.1 Research Purpose

As, the main concern behind this study is to explore the marketing strategies for new entrants in the Iraqi banking sector, the research is conducted to know how a bank can sustain in the competitive banking sector of Iraq by adopting current threats and opportunities and what marketing strategies they can adopt to gain competitive advantage.

3.2 Research Technique

This study is based on exploratory research, which entirely based on theoretical analysis. The existing studies review is already done in chapter 2 to get a basic idea of marketing factors within the banking sector. The PEST (political, economic, social and technological) to understand the macro environment of Iraq and Porter five forces (potential entrants, suppliers, buyers and substitutes) analysis to understand the micro environment of Iraq are used as a theoretical framework to examine the opportunities and threats for banks in Iraq.

3.3 Research Model

In order to provide a clear picture of our research technique, we defined our research questions, analysis and outcomes in the form of a model as mentioned below:

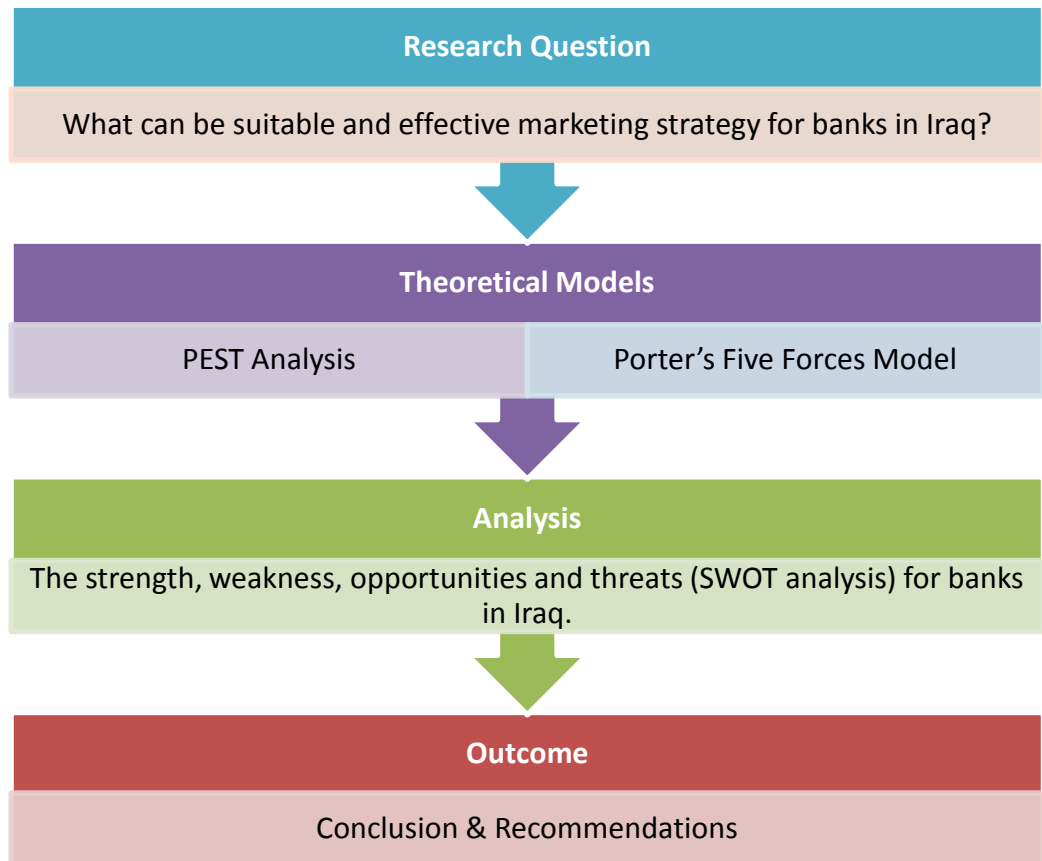


Figure 4: Research Model (designed by author)

3.4 Data collection method

As our research is based on exploratory approach, thus we need secondary data. Thus, we used only secondary data for empirical and theoretical findings. We adopted an exploratory approach to our research because the Research question is such that need a qualitative approach and to which there is no specific answer. We obtained the secondary data mainly from various articles, published journals, and official website of the Central Bank of Iraq. The reason behind not using primary data was strict

policies of banks that prefer not to disclose private information and inevitability of primary data.

3.5 Data Validation

To assure the validity of collected data, the analysis will be supported by existing theories about Iraq current economic and political situation and the end results discussion in the form of recommendation will be presented.

Chapter 4

THEORETICAL FRAMEWORK

This section of the study presents the selected theoretical frameworks PEST analysis and Porter five forces model in detail and along with other most adopted marketing strategies.

4.1 PEST Analysis

Kotler (1998) claims that P.E.S.T analysis is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. Mentioned below figure shows the complete scenario of the PEST analysis:

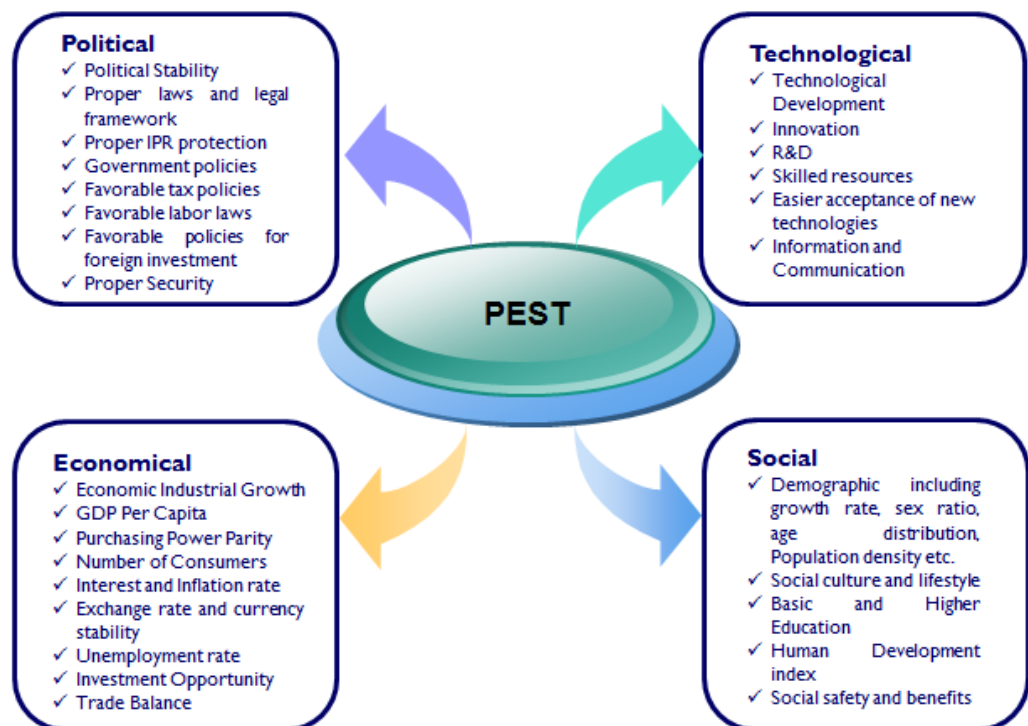


Figure 5: PEST Analysis Scenario (crackmba.com)

The PEST analysis is used effectively for the business and strategic planning, publicizing purposes as well as for research plans and business development strategies. This also ensures that the performance of an organization is strictly aligned to the strong factors affecting the corporate environment. (Dimitrios N., 2013). It widely analyzes the effect of each of external factors on the business. The outcomes can be used to make out the chances and to prepare strategies for unseen events (Byars, 1991).

4.1.1 Political and Legal Environment

A widespread impact is put by the government planning and policies on the political conditions of the country which ultimately affect the market situations for existing and new entrants in the business. Ruling agencies and enforcing assemblies have a solid effect upon the doings of business' verdicts. The status of civic concerns and business principles can be judged from the political environs (Kotler et al 1999, p.167).

4.1.2 Economic Environment

Economic conditions of a country play a very important role in the successful continuation of the organization in any sector. The economic factors are all such forces which directly affect the buying power and consumption patterns of the end users. Every organization pay a keen look to the prevailing economic conditions of the country before formulating their strategic policies. The major economic indicators include consumer price-index, net wages and savings, employment rate, capacity of industrial productivity and its capacity utilization, etc. (Jain 1999, p.140). Agreeing to Thompson (2002) study, the state's disbursements can increase the supply of money and thus can make capital markets more floating. Infect the decisions of investors regarding investing in equity funding or to withdraw their funds out is also

greatly affected by these economic factors.

4.1.3 Socio-cultural Environment

A lot of socio-cultural factors have also to be considered by the businesses before designing their corporate strategies. These include the native cultures and social living styles which positively impact on the strategic policies of the business. Consumer behaviors vary widely with respect to their prospective cultures. This socio-cultural environmental factor study helps to know about the needs and behavior of the consumers and which in turn also improves the marketing strategies of the company.

The socio-cultural backgrounds summarizes the responses and sensitivities of the consumers which differ with style and nonrefundable returns, and over-all vicissitudes can again provide both prospects and pressures for specific establishments (Thompson, 2002). According to Kotler, culture is “the set of simple ethics, insights, weeds and comportments transmitted to the user as a member of a particular society or from relevant foundations or from his family (Kotler et al. 2004).

4.1.4 Technology

The technology is widely recognized as part of the organization and the industry by the various literatures on strategic management model as it is used for the creation of competitive advantage. (Capron and Glazer, 1987; Johnson and Scholes, 1993; Jan, 2002), However, technology is external to the industry, but can also be captured and used, and this again can be influenced by government support and encouragement. Technological breakthroughs can create new industries which might prove a threat to existing organizations whose products or services might be rendered redundant, and those firms which might be affected in this way should be alert to the possibility. Equally, new technology could provide a useful input, in both

manufacturing and service industries, but in turn its purchase will require funding and possibly employee training before it can be used.

Now, we'll describe Porter's five forces model which is mainly used to get a clear picture of the external market forces which have a significant impact on strategy formation at micro level.

4.2 Porter Five Forces

The competitive policies are designed for a business to enable it to stand in its environment and here the environment stands for the firm's environment of the industry in which the firm is doing business. For example, in the case of Islamic banking, the main environment is of the banking sector. There are also some external forces which affect the overall functioning of the firm and the way these factors are dealt with may vary from one firm to the other. The competitive market for any firm primarily depends on five major factors. However, the success of the firm's business widely depends on how strong these forces are (Porter, 1980).

Figure 4 below shows the forces that help in building strong marketing strategy:



Figure 6: Porter Five Forces (mindtools, 2015)

Again, the power of these forces differs from industry to industry and from firm to firm. The five forces defined by Porter are as follows:

4.2.1 Threats of New entrants

Every new firm entering into market, often breaks in with comparatively lower prices and better quality of service in order to capture the market share and to break the grip of pre-existing firms. This also decreases the profit margins of the existing firms. Porter said that easier for the new firms to enter into the market, the tougher is the competition. The factors used to limit the entry of new firms in the industry are commonly known as Barriers to the entry. Higher the barriers, lower will be threats of the new entrants. The following are the some main factors:

4.2.2 Intensity of Rivalry among existing competitors

Cutting down the prices of the products, using more advanced channels of marketing and by improving the customer services are some of the strategies to gain and maintain a good grip on market share while prevailing in a highly competitive

industry. Here, the price antagonism are the most dangerous and unstable also because if any of the existing or new firms cut down its prices, the others will have to follow the same pattern otherwise they will lose their profit margins. However, using enhanced marketing policies can be one of the effective tools for these firms to retain their clientele and keep increasing their revenues. (Porter 1980).

4.2.3 Bargaining power of Buyers

Bargaining power is the strength of the customers which they have in any industry. Lesser the number of buyers and higher the number of suppliers in market, the customers has higher bargaining power in determining the prices they are willing to pay for the product(s) and vice versa. High negotiating control of the consumers upsurges the rivalry among the businesses (Porter 1980). And if the situation is opposite, then the balance is maintained by offering better customer services and enjoying the price flairs (Britton 2003).

4.2.4 Bargaining power of Suppliers

It's opposite to the bargaining power of buyers. Bargaining power supplier stands for the ease available to suppliers to control the prices. This force is verily driven by the providers of major raw materials, the exclusive properties of their product which makes it stand unique, the cost of moving from one product to another and also their control on market. Lesser the suppliers existing in the market, more is their demand and thus, more are they powerful (mindtools 2015).

4.2.5 Threat of Substitutes

Substitute industries are always rival to each other. Porter defined that every firm in an industry fights out with an industry which are producing substitutes to their products. Having more options available to customers, substitutes are barriers to the profit maximizing capacities of the firms by bringing more choices to the customers

because of huge price differences. For example, automatic alarm systems are replacing the security-guards nowadays (Porter, 1980). Threat of substitutes increases with increasing consumer awareness through advertisement, which was not very common in earlier days (Kotler, 1999).

Chapter 5

FINDING & ANALYSIS

In this chapter we will present the empirical results associated with the philosophies described in the previous section. These empirical findings are about the micro and macro-economic situation for banking sector in Iraq. A thorough overview about the present conditions in Iraq for banking sector is trying to be explained within these findings.

5.1 Uncontrollable Environmental factors for banks in Iraq

The overpowering environmental factors for Iraqi banks in Iraq are described in detail as below:

5.1.1 Political and Legal Environment

Iraq, though on a very slow pace, is making growth to enact with laws and progression of institutes mandatory to make development policies likewise economic and political strategic reforms in order to attract the customers by modifying them about their worries regarding the ambiguity in the business climate which is greatly damaged because of Baghdad and Erbil standoff in November 2012 and also due to exclusion of Governor Central Bank in October 2012. The state is very anxious to fetch more investors from and outside of the country by overcoming number of hurdles. The key barriers are shaky political and law and order situation in Iraq, which negatively impacts the social security and stability of the system. The infrastructure is

also obsolete for the new and modern businesses to survive, a wide scale spread corruption, inadequate vital services, shortage of skilled workers and archaic marketable laws are some of the key issues which strangle the investment and continue to limit growth of private and other non-oil sectors. The government of Iraq is eagerly working on the making of bodies to formulate, regulate and implement the proper framework for oil sector and how to disburse its income justifiably among different sectors of the nation, though these developments are still under argumentative and irregular negotiation (indexmundi, 2014).

5.1.2 Economical Environment

The economy of Iraq largely depends on income from oil sector, which provides more than 90% of total governments' earnings and also about 80% of total earnings via foreign exchange. Iraq in 2012 boosted oil exports to a 30-year high of 2.6 million barrels per day, a noteworthy surge from Iraq's average of 2.2 million in 2011. Due to persistently high prices of oil prevailing in international market, the revenues of Iraq increased much Government revenue (Indexmundi, 2014).

Although a strict control on inflation after 2006, the Iraqi leaders were not successful in using macroeconomic factors favorably and thus to be able to increase the living standard of people of Iraq. Due to these macroeconomic factors, unemployment is also a big problem prevailing in whole country. Investments can be drawn out of pockets of Iraqi citizens and foreigners as well by promoting privatization of major industries of the economy. This will eventually eradicate unemployment problems. Grubbing out the corruption, though very difficult but modifications and applying

properly designed policies in banking and private sector can prove a big change (Indexmundi, 2014).

The gross domestic production of Iraq slightly increased in 2013 to 4.21% as compared to previous years whereby it averaged to about 8.06% per annum (1991 – 2013), with the highest rate of 54.16 Per hundred in 2004 and lowest record of -56.40 % in 1991 as calculated and stated by Central Bank of Iraq (trading economics, 2015).

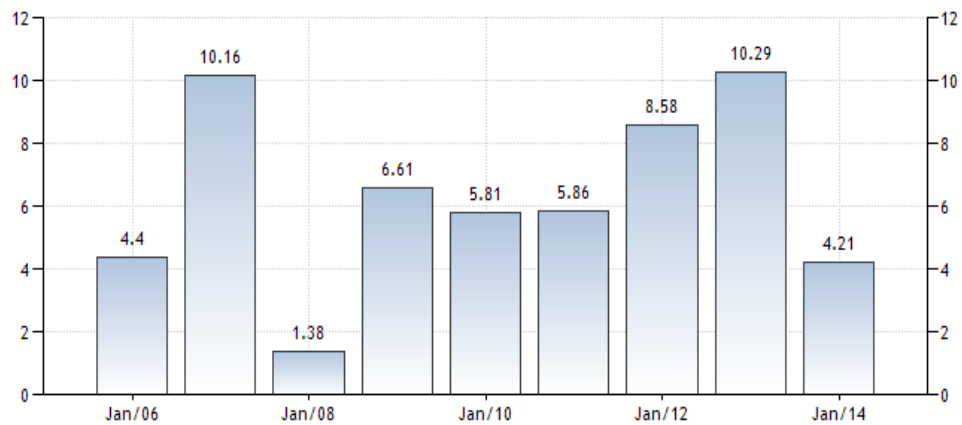


Figure 7: GDP growth ratio of Iraq (Ieconomics, 2015)

5.1.3 Socio-cultural Environment

Geographically Iraq falls in a very important location in the middle of East, amongst Iraq and Kuwait, at the border of the Persian Gulf. The Iraqi Population constitutes majorly of ethnic groups of Arabs (77%), Kurds (19%) and rest are numerous groups in minorities counting Armenians, Assyrians, Turkmens, etc. Arabs all groups, including Marsh Arabs or Ma'dan, dwell upon long soggy area which is simply above the area where Tigris and Euphrates join together. However, irrespective of ethnicity,

majority of Iraq populace are Muslims. Having the hierarchical system, in Iraqi corporate sector, subordinates and coordinators can only adhere to the gen as given to them by the team leader or can be in advisory services to the most high-ranking Iraqis (kwintessentialm, 2015).

5.1.4 Technology

Technology is today's globally known as key controller of the national economic growth of any country. Technology widely plays its role in eradicating poverty by increasing new and skilled workforce, finds out ways to disease deterrence as well as conservation of ecological sources. Following the years of segregation, Iraq has been facing considerable hindrances in its academic infrastructure and harm to the existing infrastructure and fading resources. Many of the literary and research centers are not fully operational in Iraq or are under equipped. Due to this lacking, the technology being used in most of the business sectors, comprising oil sector too, is obsolete (UNESCO, 2015).

Whereas the Banking sector is meticulously trying to modernize and construct banking sector that is vital to the state's financial resurrection. For example, considering the National Bank of Iraq, is now introducing internet banking and mobile banking together with installation of around 20 ATM machines. It's in itself is a chief stride for an Iraqi Bank to operate in a primarily cash-based economy with no or less modern technology adopted (Nikolas, 2014).

5.2 Porter five forces

In this part, we will present the empirical findings related to the porter five forces.

5.2.1 Intensity of Rivalry among existing competitors

The leader of Trade Bank of Iraq (TBI) has requested many international banks to set up their branches in Iraqi market. He mentioned about the preexisting foreign banks in Iraq and said Iraq has space for more foreign bankers, Hamdiyah Al-Jaff, the chairman and head of TBI. Rafidain and Rasheed bank are the two banks owned by the state have clear dominance over the Iraqi banking sector. It is also because of the increased minimum reserve requirement of the banks which caused many small banks operating in Iraq to consolidate with each other or merge. This paid out a scope for new foreign banker entrants in the market (FDI, 2013). Micheal Porter defined the differentiation policy as a winner to compete successfully in the market. Customers will naturally tend to buy low priced but differentiated products with good quality which will resultantly give a comparative advantage over its competitors (Kotler 1999).

5.2.2 Threats of new Entrants

Iraqi market is quite challenging for new investors though it has tremendous growth chances. The probable budding investors who once complained about security threats now talk more of the regulatory interferences while working there, like issues while making monetary arrangements, administrative hurdles of corruption, favoritism and red taping while getting settlement permissions, etc. Red tape is followed even in electric power shortage disbursements. Violence and Terrorism in 2012 also badly impacts the market, however the ratio is much lower than as in the previous years. In 2011, overseas businesses and investors stated \$55 billion findings in service and

commercial activities conferring to remote counselors. This movement amounted to an increase of 80.4% over 2010, while the total transaction value augmented by 40.3%.

5.2.3 Bargaining Power of Buyers

The increasing population of Iraq has reached 2.9% of these yearly figures. The total current population is about 35,024,191 whereas it has increased by million over past year. 50.2% of total population are men and 49.8% are women. The birth rate is around 2600 babies per day. This higher birth rate shows the reason behind more than 50% population of Iraq younger than age of 20 years. Adding to it, the lethal rate is very low as compared to the birth rate which is one of the major causes of considerably rising population of Iraq in few years (WPR, 2013).

Now a day, masses are well aware of the hard competition amongst the companies and this is due to huge marketing of the companies. Bankers also put a lot of funds in advertisings and this has caused much convenience to the customers by enabling them to decide which product to go for to meet up their needs.

5.2.4 Bargaining power of Suppliers

In Iraq, suppliers being limited in number, enjoy the ultimate bargaining power In Iraq. That's why they demand prices for their products unreasonably unfair. And being the designer of the product, they charge a lot for their services as without their permission, banking deals are not possible. The IT industry being obsolete in Iraq, the banking software's used are very complex and unfriendly. Only a limited number of companies are in this business so they enjoy the power of suppliers. The swapping

costs are not extraordinary for traders because there are various banks, both Islamic and conventional, who want suppliers.

5.2.5 Threat of substitutes

There exists a direct relationship between political stability of any economy and its per capita Income. Instable is the political situation in a country, adverse effects on the fiscal growth due to improper and irregularity in implementation of fiscal policies (Swagel et al. 1996). The political conditions in Iraq have been unfavorable since long. Every new coming government authority sets its own box of strategies terminating the existing ones, This causes many problems especially to banking sector as they have to suffer due to issues in designing and implementing their long term fiscal policies for long term businesses. Dishonest and bribery are set deep in trading system of Iraq and this can be due to varying socio-economic and cultural backgrounds (Daniele 2006). In our empirical finding, we also discovered that corruption is not only on lower ranks but its widespread from top to lower hierarchical levels. Some influential personalities take huge loan amounts from banks and don't pay back to banks. They use their political relations and other links to write off their loans.

Chapter 6

CONCLUSION & RECOMMENDATION

This chapter presents conclusion and recommendations founded on our analytical and empirical findings.

Conclusion

After the banking sector reforms, marketing has developed as a more integrated function within financial service organizations like banks largely as a result of rapid changes in the operating environment. Bank Marketing is defined as an aggregate of functions directed at providing services to satisfy customers' financial needs and wants, more effectively than the competition, keeping in view the organizational objectives of the bank. Bank marketing has become a very complex yet interesting subject as it requires the knowledge of economics, sociology, psychology, banking and also core marketing concept. In marketing, it is the customer who has the upper hand. The mantra of effectively marketing bank products lies in the systematic and professional approach towards satisfying customers' needs.

Iraq is an ideal origin for banks but due to environmental factors, the feeling of distrust and instability of the financial systems has caused uncertainty in Iraqi citizens. Consistently prevailing corruption and fraud cases in Central as well as private sector banks have left a negative impression of banking in Iraq. Violent

political conditions and security threats has also added a lot to the operations of banks in Iraq in recent years. Although not a confirm but an estimated guess is that less than 10% of Iraqis use bank accounts for their dealings.

Our thesis has depicted the present condition for Iraqi banks in Iraq by exploring the current rivalry of the industry by using Porter's five forces idea and PEST analysis at macro level. In the empirical part it is found that there many opportunities of success of banking sector in Iraq and the environmental situations are also feasible. The already banks also have many progress prospects which can be lucrative example for the new investors as well. The political instability is out rated by the striving hard efforts of autonomous body of CBI which assures special shelter to the banking sector from political influences. Central Bank of Iraq (CBI) has formulated enough legal and fiscal policies to increase efficiency of the banking sector in the Iraqi economy. Continuously, rising rate of inflation is also one of the major issues faced by the investors of banking sector despite of a considerable rise in GDP. This may be due to several factors like socio-economic and as well as cultural factors. It needs to be addressed carefully. Being an Islamic and democratic state, Iraq provides much space to the financial service providers. Technologically, Iraq is not at a good pace but it gives a chance to the banks in Iraq as there is an increase in the telecom and IT industry of Iraq. Most banks are now introducing internet and mobile banking and ATM machines are also being installed widely to facilitate their customers and this has also caused an increase in the number of clients.

The high rivalry prevails in the banking industry in Iraq as there are so many

conformist banks in the industry already which are in no way ready to let new entrants take their place or establish their business. But still the growth rate of banks is very good and smooth but obviously the new banks are far behind in the business than the conventional banks of Iraq. Time is needed to capture the market share. There are so many hurdles in the growth of Iraqi banks in Iraq like insufficient skills and qualifications of incumbents and separate SHARIAH Boards of every bank. Plus the conventional banks, by opening their standalone branches, belonging to different SHARIAH have also added to the increasing competition in the industry.

What marketing strategy will be appropriate for banks in Iraq?

As derived from our previous studies, we will discuss the marketing strategy for Iraqi banks in this section. Following the 4 P's i-e; Product, Price, Place and promotion tactic is one of the greatest modes of successful marketing strategy. The best marketing strategy will be of that one bank, which succeeds in careful handling of these 4 P's (Kotler, 2000).

Product

The banks in Iraq should by now start introducing new products and services except leasing and cost plus for doing their businesses. As briefed in chapter 1 the Iraqi banks have many innovations to introduce in the market, but they are hesitant due to the prevailing instability in market conditions. But they must understand that product differentiation is the best option to get rid of cut throat competition given by the conventional Iraqi banks.

Price

The majority of Iraq's population belongs to middle class and is too much price

sensitive. Being the strong bargaining power of the customers due to increased rivalry in the banking industry and also because of new investments into Iraqi banks industry, people now have much more choices to make and in Iraq the customer choose products primarily on the basis of its price. The products and services should be priced lower than the conventional banks to attract new clientele and also to cut off the expanding market share of conventional banks.

Place

The place means locations of the future and potential clients and therefore, place where the services would be offered. The place question also tells about the area where the bank can grab and obtain more business opportunities.

This involved all divisions affianced in agricultural advancing. Price verdict requisites to questions, such as on securities, interest rates to be charged for diverse blocks, and alike.

Promotion

Promotion is one of very important factors as long Islamic banking is concerned. Till now, many Iraqi banks do promotions on religion basis because 97% masses are muslims. But still during our studies, we discovered that only 10% to 15 % people choose Islamic banks due to religious affiliation. So, according to our feasibility study, the banks should adopt aggressive marketing and promotion strategies which are also aligned to the conventional banks and Shriah. Awareness should be spread about Iraqi banks products and services and also product differentiation must be conveyed i-e how are they different from the products and services of conventional banks though being in line with Shriah. "Captivating companies are folks that see

client needs cautiously and conveniently and with effective communiqué” (Kotler 2000).

Recommendations

- We strongly recommend Iraqi banks in Iraq to bring innovation and inventions in their products and service delivery, which can be attained by deep study of customer behavior in Iraq. Innovation can vary from product to service to process (Davenport 2006).
- Only introducing internet and mobile banking is not sufficient, Iraqi banks must make efforts to provide a good, communicative and active mobile banking services to keep custom intrinsic. One of the studies revealed that e-banking or mobile banking brings 51% increased customer loyalty to their bank or constructing body. David Webber, MD of Intelligent Environments, said: “A fast jump of technology development has created diversity in arithmetical networks for organizations to grasp and manage associations with their clientele.
- Our research also revealed that 1/3rd of Iraqi population living in rural and far off areas have lack of fiscal services. As they are more strict followers of religion than those living in urban areas? Secondly the women population is also totally overlooked while making marketing policies by such financial bodies. We recommend that Islamic branches of banks ought to broaden their undertakings to these rural areas and should also attempt to seize and involve the feminine section of the population as it establishes a big set of consumers (about 49% of total population). Diversification brings the new facilities and goods in

the new market place.

- Due to the higher illiteracy rate in Iraq, the staff members of Iraqi banks in Iraq are mostly less qualified or unskilled and lacking sufficient knowledge about Iraqi banking system. We have a strong recommendation that feasible trainings and workshops must be conducted to overcome this lacking of skills and knowledge of staff.
- The Iraqi banks should start on massive scale the image-building exercise. The banks should focus their attention on creation of such an outward look that it feels like anything entering the bank. The regent of the bank should be user-friendly with good quality furniture and other attractive infrastructure.
- The national perspective plan for women states that most of women workers are engaged in the agriculture and allied activities like dairy, animal husbandry, sericulture, handloom, handicrafts and forestry. Banks should do something to improve their access to credit which they require.
- Using Customer Relationship Management (CRM), appointment of young employees with fresh and creative minds with expertise in latest technology, as a matter of choice is desirable to survive in the globalized market.

REFERENCES

Akbar, Syed Asad (1990). 'Bank Marketing - Some Issues'. JOB MNR, Vo1.4

No. 12, 20-22.

Almossawi, M (2001). Bank selection criteria employed by college students in Bahrain: an empirical analysis. International Journal of Bank Marketing 19(3): 115–125.

Azmi & Haroon, 2005. Marketing and banking industry.

Chidambaram R M. (1994). 'Promotional Mix for Bank Marketing'. IBA

Bulletin, Vol. 16, No.3, 24-26.

CBI, 2013. Central Bank of Iraq. <http://www.cbi.iq/>

Dimitrios Nikolaou Koumparoulis, 2013. PEST Analysis: The case of E-shop..Universidad Azteca –Mexic.

FDI, 2013. Iraq bank calls for more competition. Source:

<http://www.fdiintelligence.com/Locations/Middle-East-Africa/Iraq/Iraq-bank-calls-for-more-competition?ct=true>

Kwintessential, 2015. Iraq - Language, Culture, Customs and Etiquette.

<http://www.kwintessential.co.uk/resources/global-etiquette/iraq.html>

Kotler, P. 2001, Marketing Management Millennium edition, Prentice-Hall, p.30.

Kotler, P. 2000. Marketing Management. Millennium edition. Prentice hall

Kotler, P. 1999, Principles of Marketing. 2nd European ed. prentice hall. 1999

Crane, F.G. (1990). 'The need for Corporate Advertising in the Financial

Services Industry: a Case Study Illustration'. Journal of Services Marketing, Vol.4,
No.2, 1990.

Geiger, H (1975). 'Standard Surveys for Analyzing Local Bank Competition'.

Hussain, Farhat Dr (1987). 'Public Sector Commercial Banking in India -
Development - Constraints - Recent trends'. New Delhi: Deep & Deep
publications. In 'The Use of Market Research in Financial Fields', ESOMAR, 85-
95.

Irfad, 2015. source: <http://irfad.org/iraq-banking/>.

Karur Vysya Bank Ltd. (1989). 'Study on the image of the Bank'

- Mohan, C. P. (2009). Marketing of Banking Services in Rural Areas. Retrieved from <http://www.cab.org.in/lists/knowledge%2520>.
- Marcopolis, 2012. *Banks in Iraq*. <http://www.marcopolis.net/banks-in-iraq-kurdistan-list-of-top-banks-in-iraq-and-kurdistan.htm>. Accessed on 23rd July 2014.
- Radhakrishnal~, S. (1987). 'Marketing of Banking Services, Constraints, Challenges and Strategy'. The Economic Times, April 23.
- Shyami Marhotra, 2010. *Marketing of Bank services*. View Their Jobs'. The Bankers 'Magazine (USA), Vo1.163, No.6 35-40.
- Sélim Haddad, 2013. The Iraqi Banking Sector. Economic Research & Analysis Department.
- Trading economics, 2015. The annual GDP ratio of Iraq. <http://www.tradingeconomics.com/iraq/gdp-growth-annual>
- Mindtools, 2015. Porter's Five Forces, Assessing the Balance of Power in a Business Situation. http://www.mindtools.com/pages/article/newTMC_08.htm
- Nair T G (1992). 'New dimensions in Marketing'. Financial press, 7.

- Nikolas, 2014. Source: Iraq Banks Adopting Technology to Boost Business.
<http://blogs.wsj.com/middleeast/2014/01/27/iraq-banks-adopting-technology-to-boost-business/>
- Owusu-Frimpong, N (1999). Patronage behaviour of Ghanaian bank customers.
International Journal of Bank Marketing 17(7): 335–341.
- Indexmundi, 2014. Economic overview of Iraq. Source:
http://www.indexmundi.com/iraq/economy_profile.html
- Porter, M. 1980. Competitive Strategy: techniques for analyzing industries and competitors. The free press, America. 1980.
- Porter, M. 1985. competitive advantage: creating and sustaining superior performance. The free press, America. 1985
- Ta, H and Har K (2000). A study of bank selection decisions in Singapore using the analytical hierarchy process. International Journal of Bank Marketing 18(4): 170–179.
- UNESCO, 2015. Science, Technology and Innovation in Iraq.

<http://www.unesco.org/new/en/iraq-office/natural-sciences/science-technology-and-innovation/>

US department of State, 2013. Investment Climate Statement – Iraq. Bureau of economic and business affairs.

<http://www.state.gov/e/eb/rls/othr/ics/2013/204661.htm>

WPR, 2013. Iraq Population 2014. Source:

<http://worldpopulationreview.com/countries/iraq-population/>