International Journal of Engineering, Management and Humanities (IJEMH)
Volume 5, Issue 1, Jan.-Feb., 2024 pp: 202-208 www.ijemh.com

Banking marketing and its impact on the volume of loans and deposits

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Date of Submission: 16-01-2024 Date of Acceptance: 31-01-2024

Abstract

This paper examines banking marketing and its impact on the volume of loans and deposits in the banking system. The influence of banks marketing on the amount of loans and deposits in the banking system is examined in this article. The paper looks at how the credit services industry contributes to the stability of the banking sector. The research was conducted using a thorough comparative examination of the evolution of the nation's credit services market and banking system. Using this method allowed for the identification of the primary requirements for the growth of this kind of market as well as potential avenues for the emergence of crisis occurrences during its operation. This is also indicates that banks did quite well throughout the study era in terms of deposit-taking and loan-creating operations; shortly, though, they ought to concentrate more on deposit-taking activities. This allowed for the attribution of specific reasons to the nation's financial system problems as well as the defense of state authorities' responses to their aftermath. The primary indices derived from indicators are used to benchmark against competitors and assess the effectiveness of marketing initiatives. This research evaluates the effectiveness of marketing initiatives in a chosen banking industry company and suggests metrics that support overall performance within the organization.

Keywords: banking, operational effectiveness, organizations.

I. Introduction

Machine learning is the driving force behind our time. It is changing not only how the core industries of our day—the automobiles healthcare, monetary, advertising, and commerce sectors—function but also how each person's life plays out because we use this sort of equipment daily [1-3]. Moreover, artificial intelligence has succeeded in profoundly altering all aspects of human existence. Nowadays, machine learning techniques carry out operations that were formerly exclusive to professionals [4-5].

Therefore, we discover that while conventional banking studies appreciate the causal connection between bank loans and deposits, they do not investigate the issue from the standpoint of effectiveness. The research on efficiency in banking does not investigate the causation problem since it focuses on the effectiveness of capital recruitment or fund usage operations. In this research, we examine the relationship between the operational effectiveness of bank loans and deposits by examining the efficiency of both activities within a contemporaneous paradigm.

The effectiveness of the deposit-taking and loan-making processes will next be investigated concurrently employing a three-stage lowest-squares concurrent equations system. In this way, we create a new strategy by combining the two previously mentioned methods of traditional banking studies and banking efficiency studies. Without the concurrent prejudice issue, we anticipated that this method would offer a broad perspective on the operational effectiveness of the two primary functions of banking institutions [6].

The financial banks are among the most significant categories of banks in Jordan at the time since they function as publicly traded corporations, transport out their various operations in line of their declared goals, take deposits from both individuals and corporations, manage savings and invest them, and so support the nation's economic growth [7]. In order to draw in shareholders in the most effective and lucrative areas, banks carry out a variety of operations, including lending money to people and organizations for the financing of various assignments. This assists in attracting both domestic and foreign investment and creates employment possibilities as the goal is to achieve the highest gains and the greatest degree of local and global competitiveness in the marketplace [8-9].

The research is significant because it uses periodic econometric frameworks to examine the impact of determinants on deposits to banks and shows how financial and economic variables affect bank deposits. Major risks that affect the financial services sector include contamination, global warming, ecological issues, and additional catastrophes that might have an effect on the country's finances. Businesses, shareholders, lenders, and financial markets may all be impacted by a series of occurrences that result in monetary losses. Consequently, institutions must take an environmentally friendly strategy to reduce the adverse effects of possible financial contagion in order to tackle and handle these risks [10].

II. Literature Review

Deposits must remain with the bank in order for the deposit hedges to function. The deposit license disappears when they depart. When deposits are not protected, it produces run incentives. As the value of the deposit franchise increases in relation to the bank's worth as an asset, the run incentives become more compelling. Since deposit earnings are high compared to the revenue from the assets of the bank, it occurs when rates of interest are strong [11-12]. Therefore, regardless of whether the bank has insurance to interest rates in the case of a run, the possibility of a run rises with rising interest rates. The influence of mortgage rates on the possibility of an insurance depositor run on the deposit franchises can be seen as the root cause of the regional bank crisis of 2023.

When a shareholder invests money in forming a business organization, bank capital serves as a means of funding bank operations while adhering to regulatory requirements set out by the monetary authorities. Since capital may lessen potential hazards in the banking sector, it is essential to the banking industry [13]. In addition to supporting future growth and boosting public confidence in the bank's standing, capital adequacy ratios are regarded as an indicator of a bank's capacity to guard against unanticipated expenses. The scarcity of capital has a substantial impact on a bank's ability to operate.

The bank's capacity to create consistent and substantial profits is a sign of its sound health. The bank's equity will increase if it can generate steady, sizable earnings [14]. This will improve the efficiency of the business by lowering risk and enabling it to take on new tasks. Banks will face challenges as a result of the rise in non-performing loans. To combat problematic loans, banks need to have substantial capital buffers, which mean they need to keep additional funds on hand.

In despite of the growing financial difficulties, the nation's banking and financial industry continued to operate with stability. Particularly, the banking industry reported better profitability, kept up its growth, and saw an increase in the capital sufficiency ratio. Because of the banks' cautious lending practices, the financial quality of the business community remained consistent even as credit declined [15-16]. The majority of non-performing loan ratios were at one of the lowest points in the previous 20 years, and the most recent business indicators of performance also showed that businesses' ability to repay debt was generally stable. Nonetheless, in the face of budgetary constraints, banks' exposure to the government kept rising, and their reliance on borrowings grew as deposits declined.

In actuality, we found that although deposits are positively impacted by loans, depositors had a positive and significant impact on bank loans. Additionally, the (median) operational effectiveness of deposit-taking activities is higher than that of loan-making operations, suggesting that banks should focus more on their output side. It is clear from the growth in nonperforming loans over time that banks have been having difficulty lately not just making more loans available but also making sure those loans are of a sufficient caliber [17].

III. Statement of the Problem

Because the financial industry depends so much on connections, developing trust is important. In the absence of a strong foundation for fostering trust, such as clear and understandable fees, FSPs find it more and more difficult to retain clients and cultivate a devoted customer base.

- **Limited Knowledge of Marketing Techniques:** Determine how little is known about the precise marketing techniques that banks will use in 2023 to draw in clients for deposits and loans.
- **Marketing Campaign Efficiency:** Examine the doubts around the ability of banks marketing efforts to shape consumer behavior, especially with regard to loan applications and deposit placements.

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- **Technology influencing factors:** Examine how technology is used in banking marketing and how it affects consumer behavior, particularly with regard to deposits and loans.
- **Competitive Environment**: Analyze the characteristics of competition in the banking sector in 2023 and the ways that marketing initiatives helped to provide a competitive advantage in obtaining deposits and loans.

IV. Research Methodology

The research approach that the author employed to gather data is covered in this chapter. It comprises the population of interest, the sampling strategy and number of participants, the methods for gathering data and analyzing it, and the study methodology.

V. Results and Discussion

5.1 Evolution of Financial Performance of the Banking Systems:

We employed three variables as reference indicators—ROA, ROE, and NPL—to provide an overview of the financial performance of the banking systems. Figures 1 and 2 show how these metrics have changed between 2015 and 2021.

Figure 1. Return on assets (ROA) and return on equity (ROE) in CEECs, %.

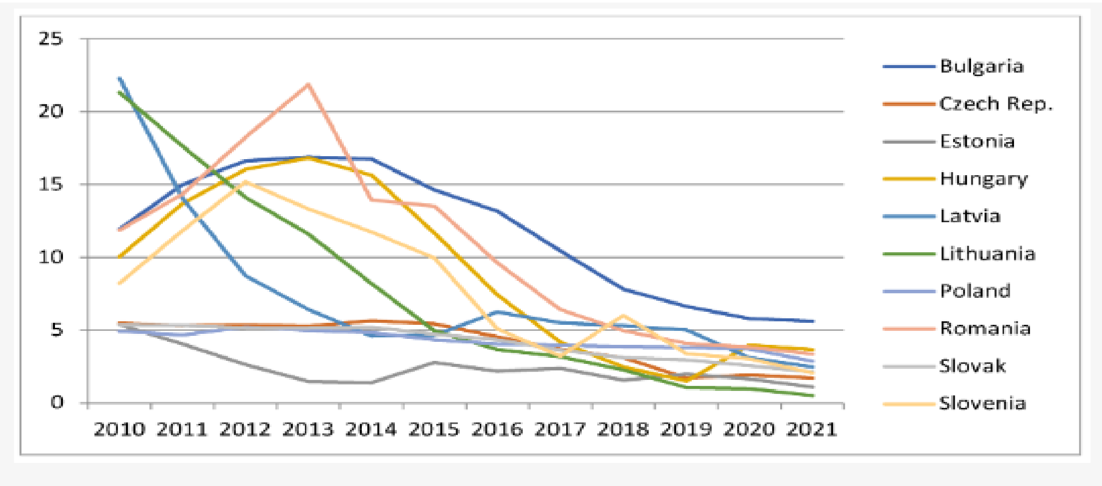

Figure 2. Non-performing loans to total gross loans, %

The banking system's profit from ownership is calculated by dividing the net revenue by the equity held by its shareholders. With a few outliers, the averages of this value were mostly within the 0–20% range for the whole examined time. It is also noteworthy that Estonian recorded an upward ROE of more than 41% in 2011. Slovenia achieved notable negative and consistently declining ROE values, with a negative historical high of 97% in 2013 being reached. As a result of the 2008 global financial crisis, negative ROE values were also observed in nations like Latvia (approximately 15% in 2010) and Hungary (about 20% in 2014).

Based on our entire evaluation, the worth of loans that were not performing showed a decline, with a percentage of less than 5% of all loans issued in 2021 (less in Bulgaria). However, even in this case, there were some exceptions, of which it is noteworthy to mention Romania, which in 2013 saw a growth point and surpassed 20% in its ratio of non-performing loans to total loans, along with Latvia and Lithuania, which were in a similar situation in 2010.

5.2 SEM Analysis

Specifically, by investigating this causative relationship, we find that DEPOSIT positively and significantly affects LOAN, while LOAN has an adverse (and minor) but negligible effect on DEPOSIT. It is conceivable to claim that loans return deposit to the financial system on a systemic level. How this impacts particular banks' loans and deposits is something we do not yet comprehend.

Table 1. Results of SEM analysis.

Panel A. Results of Equation (9)—Dependent Variable: LOAN				
Variable	Coefficient	Standard Error	t-Statistic	
DEPOSIT	0.208	0.022	9.294	***
LOA	2.440	0.073	33.480	***
TA	0.765	0.025	30.462	**
LR	0.008	0.005	1.797	***
BRANCH	0.000	0.000	2.543	***
TYPE	-0.022	0.041	- 0.535	
UNEMP	0.063	0.199	0.315	
Constant	- 1.466	0.191	- 7.678	***
Panel B. Results of Equation (10)—Dependent Variable: DEPOSIT				
Variable	Coefficient	Standard Error	t-Statistic	
DEPOSIT	0.208	0.022	9.294	***
LOA	2.440	0.073	33.480	***
TA	0.765	0.025	30.462	***
LR	0.008	0.005	1.797	***
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TYPE	-0.022	0.041	- 0.535	***
UNEMP	0.063	0.199	0.315	***
Constant	- 1.466	0.191	- 7.678	***

Notes: ** denotes a significance level of five percent, while * denotes a significance level of one percent.**

As can be shown with the value of TA in Table 1, we presuppose that the flow of loans back to the banks is asymmetrical across individual banks (i.e., large banks may get more of the loans back in as deposits, compared to smaller banks). Furthermore, we contend that savers in Vietnam invest in banks for a variety of reasons, including safety concerns and personal convictions, in addition to the institutions' perceived efficiency; as a result, the detrimental effects of type on loan amount are negligible [18]. It implies that further research is necessary to fully understand this scenario, maybe using bigger or alternative datasets (for example, for other advanced economies).

5.3 A Cybernetic Method to the Study of Banking Financial Transmission:

The value of the initial seven banks' mortgage loan marketplace in Romanian at the start of 2022 is examined in the following, taking into account both their financial resources and the amount of loans they have issued. The information was obtained from the banks' official internet pages that were part of the analysis. The research shown in Figure 3 was conducted to contrast the prices and track the growth of interest rates on home loans for many Romanian banks. The actual annual rate of interest, or the EAI, is a measure which indicates the overall cost of the loan in percentage terms and is one of the various rates of interest employed.

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Based on a review of loans currently available in Romanian banking markets, as shown in Figure 3, CEC Institution is the bank offering the interest rate that is least expensive. The bank carries multiple charges, such as credit administrative expenses, that surpass the estimated value of the mortgage loans provided by the Romanian Commercial Bank; therefore the Enterprise Architecture Initiative does not, nevertheless, and has the smallest amount. On the other hand, has the highest EAI and interest rate. When a customer applies for a loan, it is crucial that they take into account the EAI in addition to the interest rate as they need to accurately assess their ability to repay the loan.

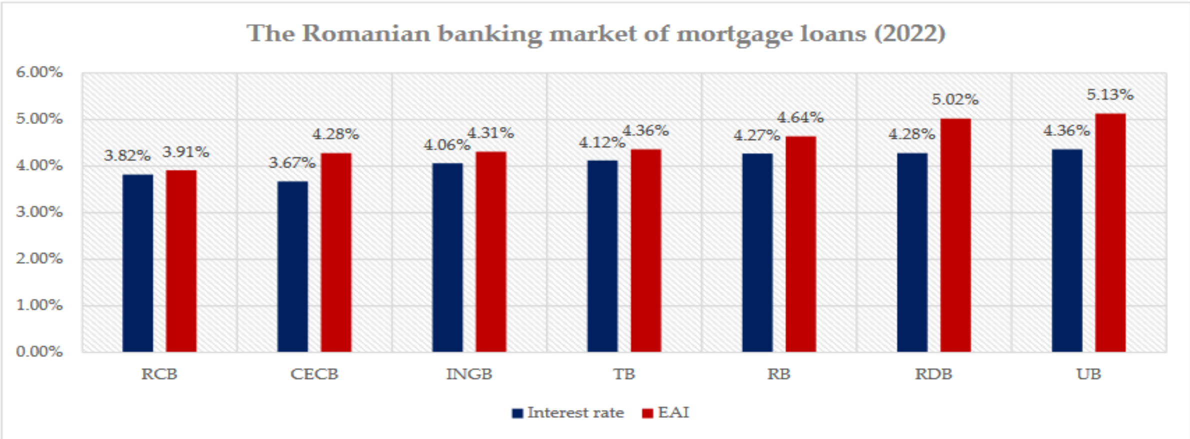

Figure 3 shows information on mortgage loan interest rates from Romania's top 7 banks. Source: Authors' processing based on information available on the official banks' websites.

The end quarter of 2014, and the subsequent quarter of 2021, accordingly, has the lowest the Immigration and Refugee values, whereas the third quarter of 2022 has the greatest value. A conducive atmosphere for the spread of financial ripples may be created by increases in interest rates and prices. The progression of the rate of inflation from the 2nd quarter of 2019 to the final trimester of 2022 is seen in Figure 9. The second quarter of 2022 saw the greatest inflation rate throughout the inflation period, while 2019T3 saw the lowest inflation rate.

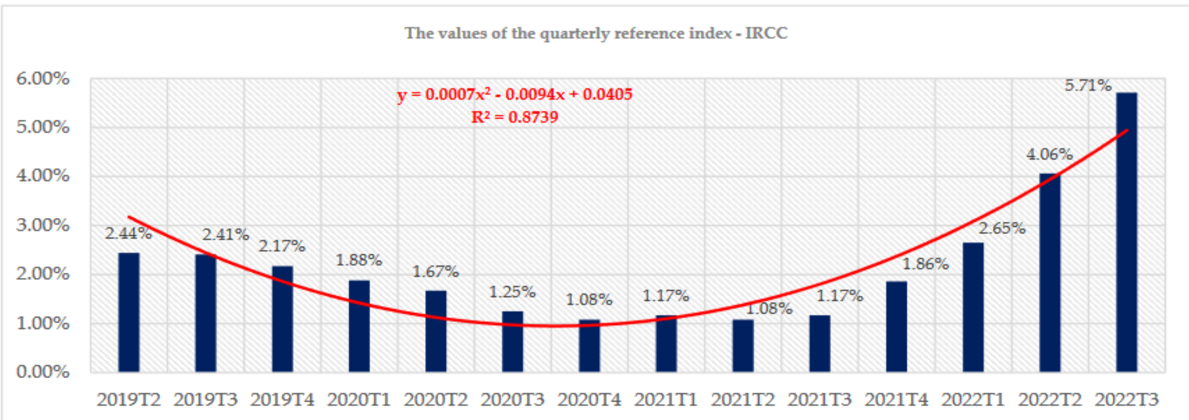

Figure 4 The numbers for the second trimester of 2019 are indicated in Figure 4 as 2019T2.

A rise in the manufacturing costs of businesses will result in lower profit margins and perhaps higher consumer prices. Other consequences can thus be extrapolated to have an effect on the likelihood of possible systemic occurrences of residual infection. For instance, it is harder for businesses to repay loans as a result of these cost increases. As a result, there may be an imbalance in the credit risk model, which forms the foundation for bank loan approvals. A sizable bank with a high level of connectedness throughout the financial economy is sufficient to have calculation residues, which will raise the percentage of non-performing loans.

The total amount of bank deposits in Jordan throughout the study era were the variable that was dependent in this study, while the interest rate, actual gross domestic product, re-discount rate, and signal factor (financial shocks) were the independent variables that explained the results. The Amman Exchange of Stocks and Financial the Market, the Securities Commissioners, the department in charge of figures, the Federation of Banks in Jordan, and annual newsletters from the Reserve Bank of Jordan were among the sources from which the figures were gathered. E-Views 9 was used to analyze the annual data series during the research period.

VI. Conclusion

Practically speaking, the research makes it possible to emphasize how crucial it is for banks to prioritize digital initiatives to boost their competitiveness, enhance performance, and be ready for unforeseen future occurrences. The study's findings are beneficial to banking product development teams, who should take into account how digitalization improves the effectiveness of financial services while creating new digital goods or looking into methods to grow already-existing ones. The findings in this work are diverse at the national level due to the limitations of the study, which included variations in the banking system structures of the various nations included in the analysis as well as a lack of available information over an extended amount of time. Therefore, by gathering pertinent data from other nations, a future iteration of the study might seek to evaluate the results of this work.

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