

## **RISK CUSTOMERS A MARKET NICHE FOR SMALL AND MEDIUM SIZED FIRMS IN THE FINANCIAL SERVICES INDUSTRY**

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### **ABSTRACT**

Commercial banks are known to be the largest financial intermediaries in Zambia. The government through institutions such the central bank of Zambia has set up the minimum capital outlay required for any banking firm in the country to conduct banking business. On the other hand the small and medium scale firms have also penetrated financial services sector, having both large firm and small and medium firms as participants in the financial services sector. The title of this article is “Risk Customers” a Market Niche for Small and Medium Sized Firms in the Financial Services industry.

The information in article is entirely collected through secondary research, specifically from scholarly articles in marketing, management and banking and finance, various text books in marketing, management and banking and finance and journals from professional bodies and magazines such as the financial time, the economists and Forbes magazine.

**KEYWORDS:** Financial Services, Market Nichers, Commercial Banks, Financial Inclusion, Liberalization.

### **INTRODUCTION**

This article focuses on how risky customers are a market niche for Small and Medium Sized firms in the financial services industry. The article details discussions on what are financial services, market nichers and commercial banks? The article further details how small and medium firms and commercial banks in the financial services industry compete and complement each other and how customers perceived to be risky by commercial banks may be of benefit to the small and medium scale firms in the financial services industry.

### **FINANCIAL SERVICES**

Financial services is the provision of economic services offered by the financial services industry, this covers are range firms that are involved in the management of funds. Provision of financial services is done by financial intermediaries and the good examples are insurance firms, pension funds, finance companies and etc. Examples of financial services offered are savings using various types of accounts, insurance cover, management of investments, offering financial advisory services, foreign exchange transactions and money transfers.

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Innovation and entrepreneurship are the common features of most the firms in the financial services industry as competition and talent intensify. Change in the financial services industry is moving at a fast pace, particularly technological advancement leading to participants to be more proactive and efficient and consideration if made in reducing costs and risks.

## **MARKET NICKERS**

These are companies that, like market followers, do not have the resources to challenge for market leadership. But unlike market followers, the market nicher deliberately seeks to avoid competition by identifying small market segments (niches) where they can compete effectively through specialisation and where the larger companies are unwilling to enter because the markets are too small or specialised. Essentially, then, market niching is for the small company. The key to successful niching is finding markets which are unattractive to larger companies and where the company has certain capabilities which match the needs of the market. Market niching can be based on product type, customer group or geographic area or a combination of these. The main danger for market nichers is if a market leader or market challenger decides to enter the market or where the niche starts to disappear due to innovation and market change. In conclusion, then, there is no doubt that a company's competitive position with regard to its relative market share is indeed a major determinant of strategic options and choice. "BPP Learning Media, Page 37, 2007"

## **COMMERCIAL BANKS**

A banking company is a company that undertakes the business of banking in the country. Usually the business of banking is defined by focusing on the functions a bank performs in the country. Commercial banks are defined as institutions that accept deposits from those with access funding

(surplus units) , lending out the financial resources gathered in form of deposits to those with the shortfall of funding (deficit units) or making investments and making the funds available to the real owners when they need them i.e. the funds should be repayable on demand. The repayment on demand happens through the withdrawal of funds by the owners usually done by filling the withdraw slip and presenting it to the tellers on the counter or the user of ATM Cards. An individual is not allowed is not allowed to act as a bank and he cannot use this term in his name "A.M. Arondekar, O.P. Agarwal, Dr Onkar Nath and P.S.Khandelwai, Page 30, 2005".

## **FEATURES OF COMMERCIAL BANKS**

The following are the features of commercial banks:

### **ACCEPTING DEPOSITS**

A commercial bank should be able to accept deposits from the general public. A commercial must not refuse to accept deposits from any member of the general public, unless such persons are undesirable for example if they are robbers. Acceptance of deposits is therefore a resilient feature of commercial banks.

### **LENDING OUT FUNDS IN FORM OF LOANS**

A commercial bank should be able to lend out funds in form of loans or making investments. Acceptance of deposits form a pool of financial resources mobilized which is stream of finding for making out loans and investments.

### **FLEXIBILITY TO ENSURE DEPOSITOR'S ABILITY TO WITHDRAW THEIR FUNDS**

The deposits made must be withdraw able. Depositors must be repaid the deposits they have made on demand when they need them in accordance with the agreement between the depositors and the bankers. The banker only

refunds the money when the depositor makes a demand through an instrument in writing and not merely by verbal order or a telephonic message.

By performing the functions stated the banker does act as an intermediary between units in excess of funding units with the shortfall of funding. Acceptance of deposits should be for the purpose of lending and investment "A.M. Arondekar, O.P. Agarwal, Dr Onkar Nath and P.S Khandelwai, Page 30, 2005". In Zambia and many economies in the sub region commercial banks are the largest financial intermediaries the country. The essence of banking business lies in its essential functions.

### **FINANCIAL INCLUSION**

According to research in the year 2008, 80% of the Zambian population was financially excluded an indication that there was need to enhance financial inclusion of the Zambian population to financial services so that the country can be in line with most countries in the sub region as well as offering reliable, affordable and convenient financial services to the majority of Zambians. Financial inclusion is a very important issue nowadays in the financial services sector as it contributes to the strengthening of a country's financial system.

A few decades ago money transfer services where mostly done by commercial banks that were mostly not accessible to the majority of the Zambian population, particularly those in the rural areas. A few money transfer firms such as western union existed in a few cities.

80% of Zambians being financially excluded in 2008 and 63% in 2009 justified the demand for financial services such as money transfer in the country. Therefore in the last few years a number of money transfer firms have sprung up and examples are Shoprite Money Transfer, Airtel Money, Swift cash by Zampost and Zoono discussed above. Remember that these are not

the only firms that sprung up, they are just examples given in this assignment.

Financial inclusion refers to access and usage of a broad range of affordable, quality financial services and products (Shoprite Money Transfers -the South Africa Case Study).

In addition to money transfer firms there are also other institutions that offer loans just like commercial banks such as Baypont.

### **LIMITATION IN SERVICES OFFERED BY COMMERCIAL BANKS**

Currently a number of areas do not have access to financial services. Branches for commercial banks are mostly found in urban areas and rarely found in rural areas. In addition research indicates that most commercial banks are reluctant in offering services to the customers perceived as too risk. The small and medium sized firms in the financial services will take advantage of the demand for financial services such money transfer in those areas not covered by huge financial services firms such as commercial banks.

### **CONCLUSION**

Liberalization of the economy has brought in a lot of participants in the financial services market ranging larger firms mostly commercial banks to small and medium scale firms in financial services offering services such as the transfer of funds and giving out loans. small and medium firms in cannot stand the heavy competition from larger firms such as commercial banks and the advantages of larger firms comes from benefits associated with economies of scale operation due to their enormous nature. Therefore small and medium scale firms will usually save customers perceived as too risky by commercial banks and accordingly the risky customers will be the market niche for a number of the small and

medium scale firms in the financial services market.

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