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NEW PERSPECTIVES IN THE BANKING SECTOR –THE CRM WAY

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ABSTRACT

An Organization interacts with their customers in a number of ways including marketing, advertising, direct mail campaigns, websites, call centers, mobile sales service, brick and mortar stores. Customer Relationship Management (CRM) is an organizational strategy to develop mutually profitable long term relationships with the customer. In service industries, the goal is especially emphasized since a repeat customer is believed to cost merely a fraction of what needs to be spent in servicing a new customer in service transaction. Banks contribute to economic growth of a region, in their role as intermediaries. Banking is now basically a business of trust. Banks are able to lend a major portion of their deposits and play the role of an intermediary and also constitute the payment system because of the trust of the people that the banks will honour their commitments. It is observed that banks lose their best clients who are sometimes their High Networth Individuals (HNI) to competitors due to a variety of reasons. Experts opine that inefficient and improper service is one major reason. The remedies suggested by them are that banks should adopt customer relationship building approaches to improve Customer Life Time value (CLV) and Customer Delight thereby resulting in a long term relationship. This paper is an attempt to observe factors essential for effective CRM in banking sector.

KEYWORDS: Customer Relationship Management, HNI, Relationship Building, CLV, Customer Delight.

INTRODUCTION

Peter Drucker observed that, “The purpose of business is to find a customer.” Theodore Levitt elaborated by saying, “The purpose of business is to create and keep a customer.” However, today business is moving towards what Jason Jennings and Laurence Houghton said, “The purpose of business is to find, keep and grow the right customer.” In this competitive world every attempt must be made to satisfy ones customers. Relationship building with customers is now accepted as over-riding goal of marketing and of the business as a whole. The biggest management challenge in the new millennium of liberalization and globalization for a business is to serve and maintain good relations with the customer. Since earlier the customers were passive the producer could sell in his own terms and took very little effort towards customer commitment. But today there is a radical transformation. The changing business environment is characterized by economic liberalization, increasing competition, high consumer choice, enlightened and demanding customer, more emphasis on quality and value for purchase. Marketers had to take a re-look at marketing methods due to changing social trends, lesser Government controls, rising income levels, empowered customer whose demands are on the rise with easy access to information and shorter product life cycles.

Marketing in the modern days are not just developing a product, pricing it, promoting it and making it accessible to target customers. It demands building trust, a binding force and value added relationship with the customers to win their hearts. The new age marketing aims at winning customers through the principles of customer delight and customer life time value.

It has been established that profit comes from repeat customers, they generate over twice as much gross income as the new customers **(Winer 2001).** Customer retention is considered to be a key contributor to increased market share, revenue growth, reduced costs and increased profits **(Appiah –adu 1999).**

CRM Guru.com, a well known group of CRM Experts, defines CRM as "a business strategy to acquire and retain the most valuable relationships. CRM requires a customer centric business philosophy and culture to support effective marketing, sales and service processes. CRM applications can enable effective customer relationship management, provided that an enterprise has right leadership, strategy and culture".

FOX, STEAD (2001) , in a research highlights Customer Relationship Management as the establishment, development, maintenance and optimization of long term mutually valuable relationships between customers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and achieves by placing these needs at the heart of the business by integrating them with the organization’s strategy, people, technology and business processes.

REVIEW OF LITERATURE

India has a well developed banking system. Most of the banks in India were founded by Indian entrepreneurs and visionaries in the pre-independence era to provide financial assistance to traders, agriculturists and budding Indian industrialists. Indian banks have played a significant role in the development of Indian economy by inculcating the habit of saving in Indians and by lending finance to Indian industry.

Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI includes only those banks in this schedule, which satisfy the criteria laid down vide section 42 (6) (a) of the Act. Indian banks can be broadly classified into nationalized banks/public sector banks, private banks and foreign banks.

While public sector banks are usually referred to as the common man’s bank. Private Banks have played a major role in the development of Indian banking industry. They have made banking more efficient and customer friendly. In the process they have jolted public sector banks out of complacency and forced them to become more competitive. Foreign banks have brought latest technology and latest banking practices in India. They have helped made Indian Banking system more competitive and efficient. Government has come up with a road map for expansion of foreign banks in India.

CUSTOMER CENTRIC BANKING SERVICES

Banks offer tangible services like loan schemes, interest rates and kinds of account and the intangible services like behavior and efficiency of staff, speed of transactions and the ambience. The banks may need to include customer oriented approach or customer focus in their five areas of businesses such as Cash accessibility, asset security, money transfer, deferred payment and financial advices.

Marketing of banking services means organizing right activities and programmes in rendering right services to the right people at the right place, at the right time at the right price and with right communication and promotion.

The 7 P's that form the services marketing mix are also getting transformed.

Products are being customized to suit individual requirements such as in loans that take into account the individual's unique needs and resources to create a customized solution.

Pricing in case of Service organizations, differential pricing is offered to suit the needs of particular segments.

Place: Distribution of services is being done through channels that enjoy mass reach

Promotion: Banks are forced to promote their unique services and policies to attract masses

Process: they are being made more customer centric and fine-tuned to offer the customer a seamless experience.

People: they are being recognized as an important resource and immense training is offered to enable them for a better value delivery.

Physical evidence is being given due importance and a number of services are adding value to their offerings through better physical evidence.

Need for CRM in banks: Indian banking industry has undergone tremendous transformation after liberalization and globalization process initiated from 1991. These changes have forced the Indian banking industry to adjust the product mix to effect the rapid changes in their process to remain competitive in the globalised environment. Over the years the nature and scope of services provided by banks have changed and expanded so much.

The global economic meltdown has increased the pressure on organizations to perform. With many financial institutions offering multi-channel access, customer relationships are becoming more complex to handle. The challenge now is to deliver an equally high level service across all channels. This gives a good cause to examine how CRM can achieve cost savings as well as enhance revenue. The new Basel accord to modify the existing capital adequacy framework is currently under discussion. Under the revised capital adequacy framework, banks will have to provide for market risk and operational risk besides credit risk. Against the background of government decisions to reduce its shareholding in nationalized banks to 33 p.c maintaining the required level of capital adequacy by the banks could come under strain. Strong banks will be able to access the capital markets for raising additional equity, but weak banks could face severe problems . But in any case, there will be tremendous pressure on banks to improve their financial performance if they have to attract additional capital for which maintaining long term relationship with their customers becomes mandatory.

As WTO provisions came into force, countries including India have to provide greater market access to other countries by eliminating Quantitative Restrictions (QR), regarding tariff barriers and liberalizing the market for financial services. Banks will have to keep themselves updated on specific developments taking place in the world, particularly in countries that are India’s major trading partners and advise their corporate clients to help them to prepare for competition with multinational companies.

Trivedi,A.K.(2003) has rightly said that Indian Banks have always proved beyond doubt their adaptability to change and it would be possible for them to mould themselves into agile and resilient organizations by adopting fine-tuned CRM strategies, operations based on asset-liability and risk management systems, the required technological capabilities and developing human resources to meet the challenges of the paradigm shift.

CRM – a tool for quality interaction:

The fundamental aim of any business is to build a customer centric organisation **(Fitzgerald and Brown 2001)**. CRM demands systematic approach that provides seamless integration in every area of business, people, process and technology, so that Banks can increase retention.

CRM is a business strategy of understanding a customer, supporting desired customer experience and building profitable customer loyalty. Customer retention is the real measure of ultimate financial success **(Cambell 1999)**. While new customers remain unprofitable for a period of time after acquisition, customers who remain with the firm for a period of time are more likely to buy additional service and spread favourable communication. Information Technology is an indispensible factor in CRM in terms of, data warehouse, data mining, decision making and information sharing between Banks and their customers.

Customer relationship management emerged as a response to decreasing customer loyalty in different industries. The reasons for decreasing customer loyalty in the financial services industry are manifold and closely interconnected. Three fundamental factors can be identified **(Walter 2000; Korner and Zimmermann 2000)**: New technological opportunities. , Increasing competition by new market entrants. Customers’changing behavior.

Suggestions and Recommendations for effective Customer Relationship Management in Banks:

1. Investment in Technological advancement: Technology helps to have 24 hours day banking, all seven days in a week. Tele banking, Internet banking and E-banking have opened new business potentials and opportunities. Banks need to invest in technology in order to retain customers.
2. Banks should invest in CRM. To a large extent, the success of a CRM plan is dependent on the choice of the software. Hence, bankers should identify and select the right vendors through domain enterprise, credibility, cost implementation and relationship. Banks should understand the requirements for CRM implementations by setting up of CRM cell and conducting surveys at periodic intervals to track their effectiveness, banks need to understand how CRM assists them in customer identification, acquisition and retention.
3. Top Management support: A top-down CRM focused approach that starts with the top management, percolating and permeating to all levels of the CRM is a necessity in the present business scenario. CRM audit by independent teams should be introduced so as to identify the existing lacunae, and also address the loopholes in the CRM strategy as per the recommendations of the audit report.
4. As part of relationship building measures Banks should respond to complaints instantaneously, analyze the attrition of the clients in a particular product, create suggestion box to elicit the views and suggestion of their employees, obtain an electronic feedback from customers to understand the level of acceptance of existing products, all this would facilitate in developing better products and long term relationship.
5. Through the collection of information with the help of CRM, Banks should learn the needs of customers and try to respond to them. Banks offering retail products need to reorient their strategy from a product-centric to a customer-centric approach to attract and retain High Net worth Individuals (HNI) and profitable customers as well.
6. A Satisfied customer is the best advertisement; hence Banks should ensure a good customer experience at every customer touch point as a successful growth strategy. A good customer experience will drive customer acquisition and promote customer retention, which translates into increased profits.
7. Banks can enhance customer service by leveraging on technology, maintenance of efficient service delivery standards and business process reengineering.
8. Banks should come up with a wide array of novel products and services every day. The challenge is for the banks to work towards ensuring that customers prefer their products and services over that of competing brands. They can leverage on CRM, to appropriately analyse and understand the needs of existing customers better, to ensure customer satisfaction, and exploring the possibility of cross-selling products to gain a competitive advantage.
9. Bank Employees must be trained suitably to keep pace with the changing environment. In order to meet the challenges, the Human Resource Department in banks have to prepare appropriate manpower plans and strategies.
10. Banks can gain a competitive advantage from CRM by becoming low-cost players in the market, achieving operational efficiency and maintaining customer loyalty. The ability to predict the products that customers are likely to purchase over a period of time, increased productivity of managerial executives, sales and customer service staff, and streamlining of business processes are some of the benefits retail banks obtain by taking to successful management of their customer relationships.

Conclusion: Banking has become boundary less & virtual with a 24*7 model. Banks who strongly rely on the merits of 'relationship for banking' as a time tested way of targeting & servicing clients have readily embraced Customer Relationship Management (CRM), with sharp focus on customer centricity, facilitated by the availability of superior technology. CRM has, therefore, become a new mantra in service management, which is both relationship based & information intensive. Banks need to differentiate themselves by offering value-added service and building long-term relationships with their customers. The CRM program must be embraced and promoted by top management and supported with a comprehensive annual CRM plan to ensure organization wide success.

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