



Customer relationship management in banking sector

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Abstract

Relationship banking or Customer Relationship Management (CRM) in banks is a comprehensive management system which seeks to touch all areas and functions of banking business connected with value creation and delivery chain of the organization. CRM is neither a product nor a service; it is an overall business strategy that enables organizations to effectively manage relationships with their customers by providing an integrated view of the customers to everyone in the organization. It is a philosophy that places the customer at the heart of an organization's processes and culture to improve his satisfaction and, in turn, maximize profits for the organization.

Keywords: banking sector, customer relationship management, relationship banking, Reserve Bank of India

Introduction

The word 'customer' signifies a relationship in which duration is not of essence. A person whose money has been accepted by the bank on the footing that they undertake to honour cheques up to the amount standing to his credit is a customer of the bank in the sense of the statute irrespective of whether his connection is of long or short standing. The contrast is not between a habitual and a newcomer, but between a person for whom the bank performs a casual service, e.g., cashing a cheque for a person introduced by one of their customers, and a person who has an account of his own at the bank.

Realising though belatedly, that it is customers on whom depends the ultimate survival of banks and it is they whose willingness to pay for a product or service converts economic resources into wealth and things into goods and it is they who determine what is its business and, what it produces and whether it will prosper, commercial banks have, of late, embarked upon long-term marketing plan with focus on customers. However, they are still finding it difficult to woo new customers and retain the existing ones because of higher value offered by the new players in terms of cost, quality, product differentiation, delivery and service. The mind-boggling question before Indian bankers today is how to attract customers and retain them.

A cursory look at the marketing strategies of various commercial banks in India reveals that they are keener on attracting new customers rather than retaining existing ones. As a matter of fact, their approach to marketing is transaction-oriented, the aim of which is to help sales people to close a specific sale with a customer. The focus of transaction banking is on customer creation, and product-orientation with little emphasis on building long-term relationship with customers, limited customer care and commitment.

In an age of decreasing customer loyalty, bankers have to place greater emphasis on managing customer relationships so that they can sell more products to their existing customers. Beyond designing strategies to attract new customers and create transactions with them, they have to go all out to retain current customers and build lasting customer relationships. They must build strong economic and social ties by promising and consistently delivering high-quality products, good service and reasonable cost. Indian bankers need to shift from trying to maximize profit on each individual transaction to maximizing mutually beneficial relationships with customers. This is what is known as 'Relationship Banking' or 'Customer Relationship Management' in banks.

Justifications for Practising Marketing in Banks

Marketing principles if practiced in a right fashion bear the efficacy of generating enriching and tapping the business potentials, satisfying the customers and sub-serving the social interests. The time-honoured innovation in perception becomes essential to conceptualise the modern marketing principles in the banking services. The following arguments justify the application process:

- **Understanding the Customers:** The concept of bank marketing is of late well supported by the sophisticated information technologies. In an age of information explosion, the banking services depend substantially on the marketing information system. With the help of different sub-systems and to be more specific the marketing research, the bankers get an opportunity to understand the expectations of prospects/customers. Since we segment the market and intensify research, it is easy to identify the magnitude or the emerging trends in expectations. The lifestyles, like and dislikes, hopes and aspirations or the behavioural

profile all are perceived in a right fashion. This simplifies the task of formulating sensitive policies and strategies, it is against this background that the banking organisations need to practice marketing. A good number of foreign banks and a few of the Indian commercial banks, of course working in the private sector appear serious to the problem and therefore they succeed in capitalizing on the opportunities optimally. The credibility for this goes to the application of modern marketing principles.

- **Satisfying the Customers:** If we understand the prospects/customers in a right fashion and the policy makers appear interested in designing creative or time-honoured policies, the success rate reaches at its peak. If the marketing processes help us in understanding the task of satisfying them is found easier. The formulation and innovation processes of the marketing mixes move in a right and desired order. The customers get the services in tune with their expectations which help banks in mobilizing savings and deposits by transforming the prospects into actual customers and the actual customers into habitual customers. The process of excelling competition is geared and the market share is maximized. Thus, we create market potentials and tap them optimally.
- **Excelling Competition:** Of late, the intensity of competition is found at its peak. Like other organisations. Even banks have also been facing numerous problems due to fierce competition. The leading foreign banks and to some extent even the Indian commercial banks working under the private sector believe in creating and expanding the quality gap. The public sector commercial banks just attempt to bridge over the gap or even fail in doing such. The snatching of business is thus, found gaining a momentum. This makes it essential that the innovation process get an overriding priority even in the public-sector banks. The need of the hour is to enrich the peripheral services so that the mobilization process is activated. Here it is important to mention that competitive banks have been using technology for improving the quality of services and the Indian public sector commercial banks have been facing strong opposition on that account. Thus, marketing practices would also help bank in optimizing our requirements for the use of technology.
- **Formulating and Innovating the Mixes:** The quality of mix plays a decisive role in getting the business and increasing the market share. Hence, the first mix is product in which we need to make possible an optimal blending of core and peripheral services. If we turn our eyes on the product mix of the private sector banks we find the private sector banks. The consumerism has taken a new shape and the customers' needs and requirements are expanding very fast. This makes it essential that while formulating or innovating the product mix, we assign due weightage to the needs and requirements of customers. While requires professionalism and the marketing principles are found helpful in the very context. While fixing interest and commissions, we need to turn our eyes on competitor's strategies and to incorporate necessary changes. We also need special emphasis on developing the human resources for banks. Since the customers are now more sensitive, the bankers behavioural management need a new look. The recruitment and training facilities, the motivational plans, the performance appraisal need a new vision. The motive is to create a quality-gap by improving the quality of our mixes.

CRM Operations By Commercial Banks in India

During the past decade Commercial bank in India have been working hard to improve customer relation management operations and spending enormous funds annually on CRM initiatives as the banks are facing challenge of catering to a more demanding customers someone who is less tolerant of errors or omissions. With the cost to acquire new customers rising ever markedly against the cost to retain customers, they want to hang on for along time. In addition to building new relationship, bankers are looking at deepening relationships. The bankers are gradually realizing that the cornerstone of the business rests on providing superior products and services designed to add value for customers. There is a huge demand for innovation, value added products and services that enhance the overall customer experience. The bankers' move to provide creative solutions for customers spending needs is in that direction.

Commercial banks in India have, of late, taken several steps to improve services to their customers. The most important ones are outlined below:

- **Introducing Multiple Delivery Channels**

In their endeavour to ease customer dealings with the banks, most of them have gradually introduced multiple delivery channels, like ATM, Phone Banking, Net Banking to shift the customers away from the traditional brick and mortar banking.

- **Extended Banking Hours Facility**

Since in Indian situation branch banking cannot be totally relegated to the backseat because of continuing customer preference for such system, some of the banks like SBI, ICICI Bank, Punjab National Bank and Bank of Baroda have resorted to extended banking hours from 8 a.m. in select branches.

- **Management of Customer Complaints**

Banks have begun taking serious note of customer complaints. Reply within 24 hours is ensured informing the status of complaint. Even the highest authority personally monitors the progress regarding customers' complaint in certain banks.

- **Customer Retention**

Banks are now keeping regular track of number of accounts closed and the accounts wherefrom heavy withdrawal is taking place. Reasons for closure of accounts are ascertained to arrest customer attrition.

- **Designing Products and Services to suit Customers**

Most of the banks concentrating on their retail portfolio are in the process of aligning their products to suit specific customer needs. Product innovation and modification of existing products are undertaken on an ongoing basis to match the changing needs of the customer.

- **Relationship Pricing**

Sensing the fact that relationship pricing strategies encourage customers to have multiple facilities and services with the bank, many banks have introduced various schemes with freebies to attract new customers on the one hand and to establish a long standing relationship through a spectrum of products, on the other.

- **Customizing the Relationship**

Most banks have redesigned their account opening forms with plethora of information primarily with a view to establishing an abiding relationship with the customer and also cross selling bank's various products.

- **Focus on Quality Customers**

According to CRM, the level of customer should be aligned with the status of the customer. A high net worth customer deserves greater focus because 20% of such customers contribute to 90% of the bank's profit. According to a survey in a nationalized bank, 67% of the bank's savings deposits customer maintain an average balance of less than Rs. 1000/- in their accounts, 25% maintain an average "balance between Rs. 1000/- and Rs. 10,000/- and the remaining 8% maintain balance over Rs. 10,000. The customers belonging to the last category are "profit" and "quality" customers. The bank should, therefore, concentrate on this category of customers while at the same time it should make efforts to convert most of the loss customers into profit customers.

Unfortunately, Indian banks have yet not been able to create enthusiastic customers because of the absence of pleasant ambience and human touch and warmth in dealings by the branch level staff. The customers do not feel being cared by the bank functionaries. It must be noted that no amount of product offerings and technological sophistication are going to attract new customers and retain the existing ones if the bank functionaries do not create pleasant and powerful customer experience and their emotions and feelings are not deeply respected every time.

Nevertheless, liberalization of financial services and competition have improved customer services, experience shows that customers' interests are not always accorded priority. More importantly, concerns have been raised with regard to banking practices that tend to exclude vast segments of the population. This is why, the RBI has announced its intention to implement policies to incentivise banks to provide extensive service responsive to the needs of the underprivileged.

According to a survey conducted by "Consumer Voice", backed by the Consumer Affairs Ministry, Syndicate Banks, State Bank of Mysore, Central Banks and Karnataka Banks scored the highest in overall satisfaction. Citibank had the highest number of dissatisfied customers with nearly 45% reporting a problem with the bank.

The study "Assessment of Quality of banking Services in India" analysed the perception of consumers and their satisfaction levels within their banks covering over 3,000 customers in 8 cities. The surprise winner was United Western Bank with loyal customers rise in Western India, over 70% of its customers would recommend the Bank to their friends. Contrary to popular perception, private sector banks did not score as well as their nationalized peers, with the exception of Vyasya Bank and Standard Chartered Bank. UTI Bank, Bank of Baroda, Canara Bank and HSBC were some of the banks where nearly 60% customers would recommend the banks to friends. Nearly half the customers of State Bank of Hyderabad, Citibank and HDFC Bank would not recommend them to friends.

Citibank was the worst offender with 45.5% of its customers saying that they had problems including unauthorized transactions, excess fee or hidden charges, delay in crediting of cheques and difficulties in closing an account. As many as 56% customers said that they would not recommend the bank to their friends. Only 14% of the consumers in the survey reported knowledge about the fees charged by their banks.

While most banks swear by credit card operations, the survey reports that the good old cheque deposit and draft facilities still drive the banking sector, with 98% of the consumers endorsing the cheque facility. Country's largest lender-SBI-witnessed largest customer migration followed by PNB. Most customers are moving to ICICI Bank or HDFC Bank.

Bank that delay collecting cheques from drop boxes and further charge late fees or interest, according to the survey, were ING, Vyasya Bank, Syndicate Bank, ABN Amro Bank, Bank of India and Canara Bank.

Conclusion

In the wake of pathbreaking economic reforms leading to increased competitiveness and fast changing social, familial and personal values of people, bank's customers have, of late, become finicky demanding better service and higher value as also personal care, and the management's growing realization that retaining existing customers is as important as attracting new customers and for that matter developing long-term relationship with customers is imperative, concept of customer relationship management (CRM) in banks has become cliché for commercial banks the world over.

CRM, in fact, involves creating, maintaining and enhancing strong relationships with customers with a view to delivering long-term value to customers. So as to nurse and develop long-term relationship with customers and to generate customer loyalty, a banker has to draw up strategic plan focusing on long-term course of action to be taken at the organisational level.

With deepening competitive pressures, concept of CRM has been found lacking in retaining customers. It is, therefore, being realised that if a bank intends to retain one's premium positioning and higher margins, one is left with only one option: deliver a really powerful and pleasant customer experience and reinforce it in as many ways as possible so that the customers no longer cares if the rival product is cheaper or has no frills. Thus, concept of customer experience management (CEM) is gaining prominence these days.

Focus of CEM is on customers, technology, look beyond the product, trust, realignment of people practices. Regarding CRM operations by commercial banks in India, it has been noted that during the past decade the banks have been striving hard to improve customer relationship management operations and spending enormous funds yearly on CRM initiatives. They have, of late, taken several steps to improve services to their customers.

Realising the inadequacy in banking services, the RBI issued in recent times specific guidelines to the banks. Even the Banking Ombudsman Scheme has been revamped in 2006 in order to enlarge its extend and scope of the authority and make the scheme more effective. The RBI has also directed the banks to build adequate institutional machinery, for formulating policies and executing them to the benefit of customers. Lately, the RBI permitted banks to deliver cash and drafts to the individual customers at their doorsteps on request.

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