Chapter 1

INTRODUCTION

It is firmly believed that the health of an economy is closely linked with banking system of a country. Banks facilitate the process of production, distribution, exchange and consumption of wealth, through their lending, borrowing and related activities. Indian banking sector is dominated by public or government sector banks for the past so many years. It was in 1954 that The All India Rural Credit Survey Committee submitted its recommendations for creation of a strong, integrated, state owned or partnered commercial banking institution with effective branch operations all over the country. This recommendation led to the establishment of the first Public Sector Bank (PSB) in the name of State Bank of India on 1st July 1955. On 19th July 1969 the Government of India promulgated Banking Companies Acquisition and Transfer of Undertakings Ordinance to acquire 14 bigger commercial banks with more than Rs.50 crore of deposits. The second phase took place in 1980 under the leadership of Mrs. Indira Gandhi by taking over 6 more commercial banks with deposits over Rs.200 crore.

Owing to the adoption of the new economic policy by the Government of India in 1991, the Narasimha Rao Government embarked on policy liberalization and licensed a number of small private banks. For the first time in India new private banks got licensed and new generation banks came into existence. This move towards liberalization and rapid economic growth re-energized the banking industry. Today the banking sector is thriving with private banks, foreign banks and PSBs fighting it out in the field with innovative approaches and services. Further, almost all global investment banks, hedge funds and private equity firms have been reaching out to corporate customers for investment funding, making the situation more challenging. Retail banking has become a greater challenge for banks in India. Cut-throat competition, innovation and advanced technology have changed the
face of retail banking which was once considered as taboo by the leading foreign and domestic banks. In the meantime, the banking sector has realized the importance and potential of retail banking, i.e. providing banking services to individuals, small businesses and dealing with large number of low value transactions.

Customer Relationship Management (CRM hereafter) is a new and emerging concept in today’s global scenario. It is seen as an answer and a change to the traditional filing methods to improve business standards. It is basically customer centric with an aim to improve customer loyalty and its impact is felt in all areas of the business. CRM is the process or methodology which is used to learn more about customer’s needs and behaviors in order to develop stronger relationships with the customers. It brings together lots of pieces of information related to customers, marketing, effectiveness, responsiveness, sales and market trends. In short, CRM can be described as the key to success in any business.

CRM in the banking arena enables banking industry to face customers with confidence, improved infrastructure and to enjoy customer acquisition and retention ultimately contributing to better performance. A number of practices are being adopted by banks to increase the satisfaction level of customers as they are using different products like Automated Telling Machine, tele-banking, internet banking, online ancillary services, etc. Further, as part of CRM, some banks are maintaining enough cash balances in ATMs, ensuring security measures for safe dealing in net banking, providing speedy services through online ancillary services, maintaining a hotel lobby experience for front office to customers, sending seasonal greetings to customers, wishing customers on their birthdays etc. Out of these some practices have been widely followed by banks to increase customer loyalty. These can be classified as the best practices in CRM implementation in retail banking sector. There is no single method for achieving customer satisfaction in a service sector like banking in India. It is a combination model of product and service
simplification, aggressive computerization or digitalization, delivery speed maximization, transparency in governance and management, ensuring safe and secure transactions online, transformation of customers back processes, etc. The best practices along with operational efficiency help a bank to enhance operational capabilities and meet customers’ expectations. The banking sector in Kerala achieved customer satisfaction, customer loyalty; cost efficiency, operational efficiency, etc through best practices.

1.1 Statement of the Problem

In today’s economy, banks can’t rely on brute strength to maximize the value of their customer relationship; rather, they need enabling technologies and tools. CRM is a technology that allows banking industry to track and leverage every customer interaction to maximize revenue opportunities and improve customer loyalty. It also helps banks to optimize their operations by automating routine tasks and standardizing best practices. Ultimately, CRM allows banks to acquire, manage, serve, and extract value from their customers better, while improving operational efficiency—something that is crucial today. In fact, Customer Relationship Management was noted as a leading priority of institutions, particularly banks, by various researchers. This trend has continued and researches go on to state the fact that if there is one technology area where you should increase your investment today in these uncertain economic times, it is CRM.

Banks have to come out with innovative measures to satisfy the needs of both the present and potential customers. At the same time, they have to adopt procedures to win back the lost customers. As the products are homogeneous, they must be differentiated. This differentiation is made possible only through the ways and means through which it is presented before the customer. These ways and means can be called as the best practices in the banking industry. Further, creating long lasting relationships is a challenge, especially when a firm has many, often millions of customers who interact with the firm in many ways. It also states that proper CRM practices will increase customer
satisfaction and build relationship with the present and prospective customers by managing information and improve performance of delivering products and services at a greater speed that engenders customer creation and retention (Balakrishnan, H. and Krishnaveni, R, 2014). Ganeshmurthy, K. et. al. (2001) observed that CRM can explore, retain and also increase the loyal customers in the competitive era. Further, Dhide and Mittal, (2008) articulate that proper customer care, number of years in business and easy accessibility are considered as the important factors that influence a customer’s choice of a bank, which makes the adoption of best practices an edging demand in banking industry. Similar to these observations, a number of studies have been made by individual researchers by highlighting the importance of CRM in banking industry. Further, there is a positive association between CRM and customer loyalty and also it is a significant motivator to banking organizations for making larger investments towards implementation of CRM best practices. But there were few attempts on the part of individual researchers to study association between CRM and customer loyalty, especially between the public and the private sector banks in India or Kerala. It is in this backdrop, that the present study “Customer Relationship Management (CRM) Best Practices and Customer Loyalty: A Study of Retail Banking Sector in Kerala” has been undertaken.

1.2 Significance of the Study
Customer relation plays a major role in the service sector as the products are identical. The only way to differentiate them is to offer them in a different way which proves that some best practices are needed to differentiate them. CRM is a buzzword for banking industry today. Banks have started implementing some practices that could help them to improve their customer relations and these practices are called as best practices. These practices have ensured long term relationships with customers, enlarging customer life cycle, reducing customer exits, cordial relationship with customers, referral marketing, word of mouth publicity, customer loyalty, increased employees productivity, etc. Apart from
the benefits that the long relationship of customers brings, research findings also suggest that the costs of customer retention activities are less than the costs of acquiring new customers, which supports the fact that CRM has a major role in the service sector.

Today the demands and expectations of customers grow faster than the banks can manage. CRM and its best practices can serve better in this situation. Further, there is no need to have face to face contact with customers to sell products or services nowadays. So the best practices of banks can enrich customer experience and loyalty and also offer most profitable products to the most profitable customers and hence this study is significant.

1.3 Scope of the Study
The study is restricted to the public and private sector commercial banks in Kerala, particularly its retail banking segment. State Bank of Travancore (SBT) from the public sector and Federal Bank (FB) from the private sector were the two banks considered for the study, as SBT and FB are the largest public and private sector banks in Kerala in terms of the number of branches. New generation and foreign banks were not included in the purview of the present study due to their non-representation in all the regions of Kerala.

The study covers best practices in CRM implementation in the retail banking sector in Kerala, the extent of implementation of CRM best practices and the association between implementation of CRM best practices and loyalty of customers.

1.4 Objectives of the Study
The study aims at the following objectives:

1. To identify and assess CRM best practices in the retail banking sector in Kerala.

2. To study the extent of implementation of CRM best practices in the retail banking sector in Kerala.
3. To study the association between CRM best practices and customer loyalty in the retail banking sector in Kerala.

1.5 Hypotheses

In line with the objectives, the following hypotheses have been set:

$H_{01}$ CRM practices in the retail banking sector in Kerala have no impact on augmenting customer relationship.

$H_{02}$ CRM practices in the retail banking sector in Kerala are good.

$H_{03}$ The opinion of the customers regarding CRM practices of the retail banking sector in Kerala is independent of the region.

$H_{04}$ CRM practices in the retail banking sector in Kerala have no impact on their implementation.

$H_{05}$ Implementation of CRM practices in the retail banking sector in Kerala is good.

$H_{06}$ There is a good association between CRM best practices and customer loyalty in the retail banking sector in Kerala.

1.6 Methodology

1.6.1 Selection of Sample

All the public and private sector banks in Kerala constitute the universe for the study. The customers and branch managers of the sample branches were the respondents. For selecting the sample, the State of Kerala was first divided into three zones—south, central and north—for selecting one district each representing these zones. Accordingly, Thiruvananthapuram (representing the south), Thrissur (representing the central) and Kozhikode (representing the north) were selected conveniently.

In the second stage, one bank from the public sector and one bank from the private sector were selected from each of the three sample districts, based on the volume of business and number of branches. The State Bank of Travancore (SBT) and Federal Bank were the banks in the public sector and
private sector, respectively, fulfilling the selection criteria in all the three zones in Kerala. Thus, State Bank of Travancore and Federal Bank constitute the sample banks. There were 172 SBT branches and 128 Federal Bank branches in the three selected zones in Kerala. In Thiruvananthapuram, there are 89 SBT branches and 35 Federal Bank branches in Thrissur 62 SBT branches and 72 Federal Bank branches and in Kozhikode 21 SBT branches and 21 Federal Bank branches.

In the third stage, for selecting the sample branch, 15 bank branches each of SBT and Federal Bank from the three zones were selected conveniently. Thus, a total of 90 branches (45 SBT branches and 45 Federal Bank branches) constitute the sample branches. The branch managers of these 90 bank branches were the respondents, representing the officials for the study.

In the fourth stage, the sample customers were selected. Five customers each from 45 branches of SBT and 45 branches of Federal Bank were selected conveniently for a detailed study. Thus, a total of 450 were the respondents (225 customers each from SBT and Federal Bank), representing the respondents for the study (Table 1.1).

Table 1.1: Sample Branches, Customers and Officials for the Study

<table>
<thead>
<tr>
<th>Region</th>
<th>Branches selected (No.)</th>
<th>Customers selected (No.)</th>
<th>Bank officials selected (No.)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBT</td>
<td>FB</td>
<td>SBT</td>
<td>FB</td>
</tr>
<tr>
<td>South</td>
<td>15</td>
<td>15</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Central</td>
<td>15</td>
<td>15</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>North</td>
<td>15</td>
<td>15</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>TOTAL</td>
<td>45</td>
<td>45</td>
<td>225</td>
<td>225</td>
</tr>
</tbody>
</table>

The sample size for the study was determined using power analysis on the basis of information obtained from the pilot study conducted with a pre-designed questionnaire to 45 selected respondents from each of the bank, altogether consists of 90. The power analysis gave a sample of 382 or more for customers and 80 or more for officers as adequate for the study (Mac Callum...
et.al., 1996). Hence the sample of 450 customers and 90 Officers used in the study is justifiable.

1.6.2 Data Source
Both primary and secondary data were used for the study. The primary data were collected from the sample respondents using two sets of structured interview schedules (given as Annexure I and II). The secondary data were collected from books, periodicals, and Committee reports, report of the sample banks, RBI publications, government publications and the Internet.

A pilot study was also conducted using the pre designed questionnaires among selected 70 customers and 20 bank officers for testing the appropriateness of the research questions and responses. The refined questionnaires after the pilot study were used for the final data collection.

1.6.3 Tools of Analysis
The data collected were classified and analyzed keeping in view the objectives of the study. For data analysis, statistical tools such as average, percentage, standard deviation, Chi-square- test, Correlation, Regression, Z test, ANOVA, Factor analysis and post hoc test were used. The mean, standard deviation, percentage and frequencies were first calculated to get the initial reaction of the respondents to each item in the questionnaire. The Chi square test was adopted to realize the dependency of the personal satisfaction level and the demographic factors. The Z- test was used to examine the mean difference between the sample and the known value of the population mean. To test the hypotheses Correlation, Regression, One-Way ANOVA and Chi-square test for independence have been applied. Confirmatory factor analysis was used to explore the relationships between independent and moderating variables and to describe the construct of the theoretical frame work.

1.7 Period of Study
The study limits itself to a 15 year period starting from 2002. The year 2002 was the starting point of third generation strategic CRM approach in banks. It
was during this period that the banking companies focused on integrating the customer faced front end systems with back end systems, as well as with partners and suppliers to grow revenue line and not just control the cost line. The survey for collecting primary data was conducted during the period from March to September 2015.

1.8 Variables Used for the Study

1.8.1 Identification and Assessment of Best Practices

1. Best practices in tele-banking services
2. Best practices in agency/general utility services
3. Best practices in credit/debit card
4. Best practices in ATM/locker services
5. Best practices in marketing techniques
6. Best practices in front office management
7. Best practices in mutual fund services
8. Best practices in deposit/loan services
9. Best practices in internet banking services through security measures
10. Best practice through computerization
11. Best practices in settlement of customer complaints/grievance redressal
12. Best practice by updating broachers and other materials
13. Best practice through increase in operating hours of the bank
14. Best practice by ensuring quality in services
15. Best practices in relationship banking
16. Best practice through delighting customers
17. Providing customized services
18. Encouraging customer feedback
19. Conducting customer meeting
20. Customer life time
21. Best practices in customer retention
22. Training programs for employees
23. Relationship pricing for special customers
24. Identification of key customers
25. Rewards to customers
26. Conducting exit interviews
27. Referral marketing programs

1.8.2 Extent of Implementation of CRM Best Practices
1. Assistance of employees in customer queries
2. Dress code of employees
3. Personal attention to customers
4. Politeness with customers
5. Emotional bond with customers
6. Punctuality/promptness of employees to deal with customers
7. Training programs to enhance morale
8. Easy settlement of customer complaints
9. Dependability/confidentiality of banking services
10. Cheerfulness of employees
11. Speedy settlement of security problems in net banking
12. Cooperation of employees in implementation of new marketing programs
13. Exit interview by employees
14. Initiative to lead CRM programs by employees
15. Customer recovery strategies
16. Positive attitude of employees
17. Attentiveness/responsiveness of employees during business hours
18. Commitment of employees towards their job
19. Competence of employees to ensure customer satisfaction
20. Flexibility/courtesy of employees while dealing with customers of banks
21. Awareness of best practices
22. Satisfaction level of best practices

1.8.3 CRM Best Practices and Customer Loyalty
1. Reputation of banks
2. Marketing programs and relationship marketing techniques
3. Quality of services
4. Loyalty programs of banks
5. Timeliness/reasonability of services
6. Comfort of services and caring for customers
7. Banks interest towards customers
8. Segmentation of customers
9. Tangibility/reliability of services
10. Response of employees towards the services of banks
11. Assurance extended by employees
12. Empathy of employees while dealing with customers
13. Flexibility of employees
14. Customers perceived quality of services
15. Faith/trust in banks products and services
16. Waiting in queues during business hours of banks
17. Habitual behavior of customers
18. Nearness to banks and other reasons
19. Switching barriers to customers
20. Behavior loyalty of customers
21. Service quality of banks
22. Customer satisfaction while using banking services
23. Customer loyalty towards banks products
24. Best practices adopted by banks
25. Loyal customers are word-of-mouth advertisers
26. Recommendation to others about the service of banks

1.9 Limitations of the Study

Even though the study is unique and extensive in many respects, it suffers from the following limitations:

1. The variables used for the study grouped under the three main heads (based on objectives) are not exhaustive. They have been identified on the basis of literature and theoretical reviews.
2. Private new generation banks and foreign banks have not been included in this study due to their non representation in all the three regions.

3. Some of the branch managers were reluctant to provide complete details regarding CRM practices for want of specific permission from head offices.

4. The results of the study may tend to change in future course of time, where the time period changes.

5. Technology plays an active role in CRM building processes. Since it is practically impossible to incorporate all aspects in a single study, technological aspects in relationship management have not been taken into account.

6. CRM practices of bank branches and a personality characteristic of customers are directly connected to each other and usually reflect on long term relationships with customers. The present study has not taken into account the personality characteristics of customers.

7. Leadership skills of the managers, efficiency of staff, training to staff and management of customers visiting a branch, among others also influence CRM best practices, which are not dealt with in this study.

In spite of these limitations, every effort has been made to analyze the data and cross check the results to arrive at findings and also to offer meaningful suggestions.

**1.10 Chapterisation**

Chapter 1    Introduction

Chapter 2    Literature Review

Chapter 3    CRM Best Practices and Customer Loyalty in Retail Banking- A Theoretical Review

Chapter 4    CRM Best Practices in the Retail Banking Sector in Kerala
Chapter 5  Implementation of CRM Best Practices in the Retail Banking Sector in Kerala

Chapter 6  CRM Best Practices and Customer Loyalty in the Retail Banking Sector in Kerala

Chapter 7  Summary of Findings, Conclusion and Suggestions

References


