INTRODUCTION   CRM
1. Introduction CRM

1.1 INTRODUCTION

In recent years, the banking industry around the world has been undergoing a rapid transformation. In India also, the wave of deregulation of early 1990s has created heightened competition and greater risk for banks and other financial intermediaries. The cross-border flows and entry of new players and products have forced banks to adjust the product-mix and undertake rapid changes in their processes and operations to remain competitive. The deepening of technology has facilitated better tracking and fulfillment of commitments, multiple delivery channels for customers and faster resolution of miscoordinations. Unlike in the past, the banks today are market driven and market responsive. The top concern in the mind of every bank's CEO is increasing or at least maintaining the market share in every line of business against the backdrop of heightened competition. With the entry of new players and multiple channels, customers (both corporate and retail) have become more discerning and less "loyal" to banks. This makes it imperative that banks provide best possible products and services to ensure customer satisfaction. To address the challenge of retention of customers, there have been active efforts in the banking circles to switch over to customer-centric business model. The success of such a model depends upon the approach adopted by banks with respect to customer data management and customer relationship management.

Over the years, Indian banks have expanded to cover a large geographic & functional area to meet the developmental needs. They have been managing a world of information about customers - their profiles, location, etc. They have a close relationship with their customers and a good knowledge of their needs, requirements and cash positions. Though this offers them a unique advantage, they face a fundamental problem. During the period of planned economic development, the bank products were bought in India and not sold. What our banks, especially those in the public sector lack is the marketing attitude. Marketing is a customer-oriented operation. What is needed is the effort on their part to improve their service image and exploit their large customer information base effectively to communicate product availability. Achieving customer focus requires leveraging existing customer information to gain a deeper insight into the relationship a customer has with the institution, and improving customer service-related processes so that the services are quick, error free and convenient for the customers. Furthermore, banks need to have very strong in-house research and market intelligence units in order to face the future challenges of competition, especially customer retention. Marketing is a question of demand (customers) and supply (financial products & services, customer services through various delivery channels). Both demand and supply have to be understood in the context of geographic locations and competitor analysis to undertake focused marketing
Customer-centricity also implies increasing investment in technology. Throughout much of the last decade, banks world-over have re-engineered their organizations to improve efficiency and move customers to lower cost, automated channels, such as ATMs and online banking. But this need not be the case. However, to maximize the value of this resource, our banks need to transform their branches from transaction processing centers into customer-centric service centers. This transformation would help them achieve bottom line business benefits by retaining the most profitable customers. Branches could also be used to inform and educate customers about other, more efficient channels, to advise on and sell new financial instruments like consumer loans, insurance products, mutual fund products, etc. There is a growing realization among Indian banks that it no longer pays to have a "transaction-based" operating model. There are active efforts to develop a relationship-oriented model of operations focusing on customer-centric services. The biggest challenge our banks face today is to establish customer intimacy without which all other efforts towards operational excellence are meaningless. The banks need to ensure through their services that the customers come back to them. This is because a major chunk of income for most of the banks comes from existing customers, rather than from new customers.

Customer relationship management (CRM) solutions, if implemented and integrated correctly, can help significantly in improving customer satisfaction levels. Data warehousing can help in providing better transaction experiences for customers over different transaction channels. This is because data warehousing helps bring all the transactions coming from different channels under the same roof. Data mining helps banks analyze and measure customer transaction patterns and behaviour. This can help a lot in improving service levels and finding new business opportunities. It must be noted, however, that customer-centric banking also involves many risks. The banking industry world over is being thrust into a wild new world of privacy controversy. The banks need to set up serious governance systems for privacy risk management. It must be remembered that customer privacy issues threaten to compromise the use of information technology which is at the very center of and customer relationship management. The critical issue for banks is that they will not be able to safeguard customer privacy completely without understemming the most exciting innovations in banking. These innovations promise huge benefits, both for customers and providers. But to capture them, financial services companies and their customers will have to make some critical tradeoffs. When the stakes are so high, nothing can be left to chance, which is why banks must immediately begin developing comprehensive approaches to the privacy issue. Traditionally, few people changed their banks unless serious problems occurred. In the past there was, to certain extent, a committed, often inherited relationship between a customer and his/her bank. The philosophy, culture and organization of financial institutions were grounded in this
assumption and reflected in their marketing policies, which were product and transaction-oriented, reactionary, focused on discrete rather than continuous activities. Today, financial institutions can no longer rely on these committed relationships or established marketing techniques to attract and retain customers. As markets break down into heterogeneous segments, a more precisely targeted marketing technique is required, which creates a dialogue with smaller groups of customers and identifies individual needs. Also, before the Internet revolution, consumers largely selected their banks based on how convenient the location of bank's branches was to their homes or offices. With the advent of new technologies in the business of bank, such as Internet banking and ATMs, now customers can freely chose any bank for their transactions. Thus, the customer base of banks has increased, and so has the choices of customers for selecting the banks. This situation coupled with the pressures of competitive and dynamic markets has contributed to the growth of CRM in the banking Sector.

1.2 Customer Relationship Management: The Concept

Customer Relationship Management is the establishment, development, maintenance and optimization of long-term mutually valuable relationships between consumers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy, people, technology and business processes.

At the heart of a perfect CRM strategy is the creation of mutual value for all the parties involved in the business process. It is about creating a sustainable competitive advantage by being the best at understanding, communicating, and delivering, and developing existing customer relationships in addition to creating and keeping new customers. So the concept of product life cycle is giving way to the concept of customer life cycle focusing on the development of products and services that anticipate the future need of the existing customers and creating additional services that extend existing customer relationships beyond transactions. CRM is a comprehensive approach for creating, maintaining and expanding customer relationship. It provides seamless co-ordination between customer service, marketing, information technology and other customer related functions. It integrates people, process and technology to maximize relationships with all the customers. It does not aim to build closer relationship with all customers, but it recommends that organizations take initiative to identify the most valuable customers by looking for their life time value. CRM means building an interdependent relationship with the customer in which each relies on the other for business solutions and successes. From the Bank’s point of view, it the management process or approach of acquiring, retaining and growing
1.3 Need of CRM in the Banking Industry

A Relationship-based Marketing approach has the following benefits

- Over time, retail bank customers tend to increase their holding of the other products from across the range of financial products / services available.

- Long-term customers are more likely to become a referral source.

- The longer a relationship continues, the better a bank can understand the customer and his/her needs & preferences, and so greater the opportunity to tailor products and services and cross-sell the product / service range.

- Customers in long-term relationships are more comfortable with the service, the organization, methods and procedures. This helps reduce operating cost and costs arising out of customer error.

- Intense Competition

There is intense competition among the Private Sector Banks, Public Sector Banks and Foreign Banks and they are all taking steps to attract and retain the customers. New technologies, research facilities, globalization of services, the flood of new products and the concept of all the facilities under one roof to provide better customer service leading to customer delight.

- Well Informed Customers

The Customers in Banking Industry today are well informed. With the introduction of new technology, the world has become like a small village. Thus, if a Bank wants to have more customers, it should develop a good relationship with its present customers and try to maintain the same in the future also.

- Decline in Brand Loyalty

In the present scenario, brand loyalty is on decline. The customers are switching over frequently to avail the better facilities from other banks. Newer and superior products and services are being introduced continuously in the market. Thus, the banks have to upgrade their products, improve customer service and create bonds of trusts through proper care of customer needs and regular
communications. With the help of CRM, strong customer loyalty and a good image for the organization can be developed.

- Improved Customer Retention

In the intensely competitive banking industry, retention of existing customers is vital, which can be achieved through the process of CRM.

With increased number of banks, products and services and practically nil switching costs, customers are easily switching banks whenever they find better services and products. Banks are finding it tough to get new customers, and more importantly, retain existing customers.

According to a research by Reichheld and Sasser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Therefore, banks are now stressing on retaining customers and increasing market share.

1.4 Banking and CRM

Benefits of CRM
Benefits of CRM can be categorized into three groups namely: Benefits for customers, benefits for employees and benefits for banks.

(i) Benefits for Customers

- There is a more coordinated and professional approach to customer contact.
- With up-to-date customer information, Banks can offer more personalized services.
- Customers feel empowered if they have greater access to products and services. For example 24 Hours banking.
- Targeted product and service offerings can be timed to coincide with customer events and requirements e.g., Education Loans and Tourism Loans.

(ii) Benefits for Employees

- Employees are empowered with the information to deliver high quality service and meet customer expectations.
A greater focus on Customer Relationship Management (CRM) is the only way the banking industry can protect its market share and boost growth. A successful CRM strategy aims at understanding the needs of the customer and integrating them with the organization’s strategy, people, technology and business process. Therefore, one of the best ways of launching a CRM initiative is to start with what the organization is doing now and working out what should be done to improve its interface with its customers. Then and only then, should it link to an IT solution. It does not happen simply by buying the software and installing it. For CRM to be truly effective, it requires a well-thought-out initiative involving strategy, people, technology, and processes. Above all, it requires the realization that the CRM philosophy of doing business should be adopted incrementally with an iterative approach to learn at every stage of development. Most widely accepted classification of Customer Relationship Management (CRM) systems includes operational, analytical, collaborative and e-CRM. While operational, collaborative, and e-CRM has received a significant interest among practitioners and scholars, but analytical CRM has been mostly neglected by them. The major function of analytical CRM is to support strategic customer information provision and customer knowledge acquisition to help achieve the final goal of CRM which is to enhance customer profitability. Customer profitability is the difference between revenue and costs.

1.5 EVOLUTION OF CRM IN BANKING SECTOR

Regulation and technological improvements are responsible for the vast majority of innovations in banking over the past quarter century. The introduction of personal computers and the proliferation of ATMs in the 1970s captured bank management’s attention. The regulatory
changes in the 1980s fueled much of the industry’s growth, then downsizing as bankers focused on amassing market presence which resulted in significant merger activity. Recent technological improvements are at the root of bankers’ focus as well as a target for their significant investment dollars today. In fact, according to recent projections, bankers and their financial service company would spend almost $7 billion this year on CRM and increase that by 14 percent each year for then next several years.

What drove many bankers to invest in ATMs was the promise of reduced branch cost, since customers would use them instead of a branch to transact business. But what was discovered is that the financial impact of ATMs is a marginal increase in fee income substantially offset by the cost of significant increases in the number of customer transactions. The value proposition, however, was a significant increase in that intangible called customer satisfaction. The increase in customer satisfaction has translated to loyalty that resulted in higher customer retention and growing franchise value. Internet banking, a product of the 1990s, shows similar characteristics. Again, bankers invested believing that the Internet was a lower-cost delivery channel and a way to increase sales. Studies have now shown, however, that the primary value of offering Internet banking services lies in the increased retention of highly valued customer segments. Again, the intangible called customer satisfaction drives the value proposition. CRM is not another ATM or Internet bank. It is not a checking account, a stock or a mortgage. CRM is primarily driven by the innovation of technology, but unlike other technological innovations, CRM has power to help bankers quickly and directly improve customer satisfaction. CRM is an added dimension to ensure that what the customer expects is consistent with what the bank is prepared to deliver. One expert in bank CRM initiatives recently said that CRM is an approach that is less focused on providing the right services to the customer than attracting customers who are the right fit for what the bank has to offer. Further, the primary value of CRM is its potential as a customer retention tool.
1.6 Phases in CRM

**THE CRM VALUE CHAIN**

Customer data → Customer information → Customer Knowledge → Customer wisdom

1.7 CRM LEVELS

CRM practice involves understanding the customer, understanding the organization, and continuously improving service quality. Done well, the firm acquires, retains, and nurtures the right customers based on an understanding of their needs and their long-term value to the firm. Increased value of the customer base reflects in increased shareholder value.

**The CRM Process Capability Framework**

CRM Level 1 is the lowest and is characterized by ad hoc customer relationship processes where success often depends on individual heroics. It may well be profitable, but the firm is reactive and frequently wrestles with emergencies. Technology in Level 1 firms typically consists of silos of disconnected tools.

CRM Level 2 capabilities emerge from standardized, repeatable transactional CRM processes where employees understand their role in the process and are accountable to standards, where dependencies such as suppliers are recognized, and where technology coordinates transactional processes.

CRM Level 3 capabilities add an organization-wide dimension where a library of standards and approved meta-processes exist and where transactional processes are developed by tailoring standardized processes along guidelines. Risks, customer requirements, and dependencies are actively managed. CRM technology is integrated enterprise-wide to support collaboration and performance metrics.
CRM Level 4 capabilities implement management by quantitative CRM metrics and controls that employ standards and baselines that are aligned with business objectives.

CRM Level 5 denotes an organization that regularly analyzes CRM data, metrics, controls and performance at senior levels, and then takes action to improve processes, to innovate, and to capitalize on emerging opportunities.

1.8 Introduction of Innovative Services in banks through CRM

Banks have made several innovations by using the CRM System such as:

- The introduction of ATMs.
- Biometric ATMs.
- Single Window Service.
- Teller System.
- Internet Banking
- Introduction of Plastic Money: Credit Card, Debit Card, Smart Card.
- Mobile and E-Mail Alerts
- Electronic Cash
- Introduction of two in one Accounts.
- Introduction of new loan schemes as per the customer’s needs viz. Education Loans, Marriage Loans, Housing Loans, Personal Loans, Vehicle Loans, Furniture Loans, Renovation Loans and Tourism Loans.

1.9 Technological Tools for CRM

Customer database

A good customer information system should consist of a regular flow of information, systematic collection of information that is properly evaluated and compared against different points in time, and it has sufficient depth to understand the customer and accurately anticipate their behavioral patterns in future. The customer database helps the company to plan, implement, and monitor customer contact. Customer relationships are increasingly sustained by information systems. Companies are increasingly adding data from a variety of sources to their databases. Customer data strategy should focus on processes to manage customer acquisition, retention, and development.
Other Technologies that are used are as follows:

- Electronic Point of Sale (EPOS)
- Sales Force Automation
- Customer Service Helpdesk
- Call Centers
- Systems Integration

Call Centers helps in automating the operations of inbound and outbound calls generated between company and its customer. These solutions integrate the voice switch of automated telephone systems (e.g. EPABX) with an agent host software allowing for automating call routing to agents, auto display of relevant customer data, predictive dialing, self service Interactive Voice Response systems, etc. These systems are useful in high volume segments like banking, telecom and hospitality. Today, more innovative channels of interacting with customers are emerging as a result of new technology, such as global telephone based calls centres and the internet. Companies are now focusing to offer solutions that leverage the internet in building comprehensive CRM systems allowing them to handle customer interactions in all forms. While CRM solutions are front office automation solutions, ERP is back office automation solution. An ERP helps in automating and giving an integrated view of business, where as CRM automates the relationship with customer covering contact and opportunity management, marketing and product knowledge, sales force management, sales forecasting, customer order processing and fulfillment and complaint handling by providing an integrated view of the customer. It is necessary that the two systems integrate with each other and complement information as well as business workflow. Therefore, CRM and ERP are complementary. This integration of CRM with ERP helps banks to provide faster customer service through an enabled network, which can direct all customer queries and issues through appropriate channels to the right place for speedy resolution.
1. Introduction CRM

1.1 Objectives of the Study

1. To study & monitor the working styles, structure, economic objectives of various Nationalize Banks in comparison to Pvt. Banks
2. To find out customer account management in banks
3. To measure the customer satisfaction index
4. To evaluate the control criterion for reducing paper work, level of automation, level of computerization by banks to provide efficient services to customers

Identification of barriers to successful implementation of CRM

5. Assessments of customer loyalty towards banks (customer relationship bonds)
6. To suggest a model for successful CRM implementation

1.11 Scope of the Study

Principal aim is to gather and collate information from the literature and from leading researchers, consultants and practitioners with objective of identifying and delineating the major aspects of Customer Relationship Management in Banks.

To fill in the evaluation of secondary data, primary data was collected from Public & Private Banks. Primary data is collected through questionnaire and personnel interview method. Scope of the study is limited to CRM practices of SBI, PNB, ICICI & HDFC.

1.12 Research Methodology

A study has been carried out in the Banking industry in the National Capital Region of India using Questionnaire cum interview approach. Questionnaires have been designed based on the study of the literature and modified based on the discussions held and the testing done with the practitioners. Different respondents were taken from 4 Banks from different functions and managerial levels with in and outside the organization. One, it gave inputs in structuring the instruments of the model. Two, it acted as a test data. Pearson correlations and factor analysis techniques have been applied using SPSS package to analyze the gathered responses.

1.13 Who will get the benefit?

The primary beneficiaries of this work would be the Banking Sector that are investing in this Customer Relation Management with associated expectations of results. The Organizational heads, managers, employees who plan CRM, partners should able to understand the basic
principal of having CRM and use the proposed model to gauge where they stand, what they can do to refine their standing.

Members of CRM Steering committees, Heads of Banks, Systems Analysts, System Auditors and consultants will get directions as well as a defined tool for system planning, evaluation, control & improvement.

Academic & researchers will find this work as a milestone towards improved use of CRM. Many issues are resolved and many more raised laying further stones towards removing the technology paradox and achieving a seamless merger of technology and business.