CHAPTER 1

INTRODUCTION

Consequent to the Government of India’s economic policies pertaining to globalization, liberalization and privatization, coupled with financial restructuring and financial inclusion, there has been a paradigm shift in the structural and operational pattern in Indian Banking industry.

For decades together, bankers in India acted as mere financial intermediaries accepting deposits from investors and granting loans to those in pecuniary needs. The difference between deposit interest rate and loan interest rate constituted the income to bankers.

The prodigious growth witnessed in the non-banking financial sector, proliferation of equity culture, mutual funds and novice financial products in the financial market, impelled Indian banker to don additional roles beyond serving as mere financial intermediaries thus making bankers also blossom as financial facilitators.

In order to spread the banking habits across the length and the breadth and to every nook and corner of the country in tandem with the national objectives of the socio-economic policies, major commercial banks were nationalized. Banking which was hitherto confined to select segments was made available to the economically down trodden sections of the society, farmers, small traders, small scale industries et al. Thus, banking culture percolated down to the lower segment of the society. With meager competition, bankers cozily operated in sellers market.

When deregulation dawned the horizon, non-banking financial institutions, private and foreign banks entered the fray with their hi-tech, professional banking personnel, posing a colossal challenge to the nationalized banks which so far was concentrating on traditional brick and mortar banking only.

Concurrently, with the catapulting of the education level, economic upliftment of the social mass along with the spread of electronic communication cult, expectations of retail banking customers started sky rocketing. Bankers started vying with each other to attract customers and adventured to quench their soaring expectations. This made the Indian banking
arena highly competitive and forced bankers to view the financial market in a totally different perspective, that is, from customers’ point of view.

Gradually, customers culminated as focal point of banks for doing their banking business. Bankers evolved themselves in anticipating, identifying, reciprocating and satisfying their customers needs in a mutually rewarding manner, thus enlarging the nuances of doing banking business.

The emergence of universal banking, class banking, personal and online banking, tele banking, internet and mobile banking, home banking, electronic fund transfer, 24x7 banking, anywhere banking and novel retail products like ATM cum debit, credit card, educational loan, housing loan, consumer loan etc. are standing testimonies of how banking in India is becoming customer centric.

Thus with all banks now offering a plethora of retail products with almost undifferentiated services, Indian retail bank customers have unlimited choices to choose from, and their expectations are also growing. In this milieu, in order to remain competitive, bankers have to meet the expectations of the customers much better than competing banks in the fray. This has lead the bankers focus their attention on customer relationship management to have the customers as lifelong profitable partners. For this purpose, bankers should not only constantly fine tune and tailor their performance to the needs of the customers, but should also sustain them through the infinite future to meet the ever growing customers expectations. Customer relationship management in the realm of retail banking has thrown open several issues and these issues made the researcher undertake the study.

1.1 Statement of the problem

The contemporary Indian banking industry is characterized by intense competition. Multiple factors like government of India’s approach towards liberalization, privatization and globalization, ingress of foreign and private banks, non banking financial institutions, spread of banking habits and banking literacy, economic growth, et al. have contributed to the present scenario.
The outwit competition in the banking industry is bound to vault further down the lane, which in turn would make banking business more challenging and perplexing.

A paradigm shift is discernible in the Indian banking arena. Such a switch reflects in terms of number of banks, volume of banking business and nature of banking operations. Banks are gradually maturing into a full fledged financial institution from mere financial intermediaries.

The service product mix tendered by banks, the service delivery system and the associated aspects have undergone a sea change, thanks to the relentless advancement in technology coupled with a phenomenal increase in the number of retail banking customers with lofty expectations.

In the present sophisticated milieu of competing bankers, who render almost undifferentiated services for about equal prices, customers have an array of choices and tend to switch banks in search of premium services with little or no obstruction.

Bankers have to execute their banking operations against the potential risk of customers switching banks at any point of time, resulting in the decline or loss of revenue.

To prevent or minimize such customer defection, bankers have to chalk out customer centric strategic decisions. Conspicuously, the conditions haul the attention towards evolving meaningful customer relationship management which would not only carve a platform for retaining existing customers but also provide a foundation to enlarge customer base by enticing additional customers.

Presently, bankers are competing among themselves, not only to attract new customers but also to allure customers from competing banks and also to catapult the volume of business from the existing customers through cross sale. All banks have taken convergence of this fact, and a proactive as well as reactive measures within the ambit of customer relationship management have been initiated. Thus, customer relationship management has come to stay in the Indian Banking industry in general, and retail banking industry in particular.

Indian retail banking is emerging as the fulcrum of banking operations holding a promise of high growth potential. All the players in the banking foray are competing among themselves to secure the maximum mileage of retail banking.
Customer relationship management in Indian retail banking bestows a host of issues encompassing factors leading to selection of banks, influences contributing towards customers satisfaction, towards building relationship and sustaining such relationship and influences leading to dissolution of relationship. Perception of such factors and influences differ between retail banking customers and bank officials. A sound comprehension of such influences would obviously contribute towards arriving at profitable relationship building strategies and obliterate the perils leading to inappropriate relationship strategies. This appears to become as a pivotal issue in customer relationship amplification in Indian retail banking, and hence the same is identified as the subject for this study with the following objectives.

1.2 Objectives

The study has the following broad spectrum of objectives

1) To study the practices of Customer Relationship Management in Indian Retail Banking.
2) To analyze the customer behavior with respect to retail banking in Chennai.
3) To identify the key variables which influence customers in selecting a bank.
4) To identify the key factors which influence customers satisfaction level.
5) To delineate factors which prompt customers’ defection from one bank to another.
6) To identify the key variables that contribute to banker-customer relationship.
7) To identify the gap between retail banking customers and bank officials with regard to factors contributing towards customer-banker relationship.
8) To discern the gap between retail banking customers and bank officials regarding variables prompting customers to switch banks.
9) To study the transition of retail customers from the traditional banking to the contemporary sophisticated ATM and Internet Banking.
10) To propound suggestions to policy formulators for improving CRM practices in India.

To accomplish the said objectives the following hypotheses, among others, are framed and tested.

H1: Gender has no significant impact on their transition to ATM.
H2: Age of retail customers has no significant impact on their transition to ATM.

H3: Qualification of retail customers has no significant impact on their transition to ATM.

H4: Occupation of retail customers has no significant impact on their transition to ATM.

H5: Income of retail customers has no significant impact on their transition to ATM.

H6: Gender has no significant impact on their services availed at ATM.

H7: Age of retail customers has no significant impact on their services availed at ATM.

H8: Qualification of retail customers has no significant impact on their services availed at ATM.

H9: Occupation of retail customers has no significant impact on their services availed at ATM.

H10: Income of retail customers has no significant impact on their services availed at ATM.

H11: Gender has no significant impact on their transition to Internet Banking.

H12: Age of retail customers has no significant impact on their transition to Internet Banking.

H13: Qualification of retail customers has no significant impact on their transition to Internet Banking.

H14: Occupation of retail customers has no significant impact on their transition to Internet Banking.

H15: Income of retail customers has no significant impact on their transition to Internet Banking.

H16: Gender has no significant impact on their services availed through Internet Banking.

H17: Age of retail customers has no significant impact on their services availed through Internet Banking.

H18: Qualification of retail customers has no significant impact on their services availed through Internet Banking.
H19: Occupation of retail customers has no significant impact on their services availed through Internet Banking.

H20: Income of retail customers has no significant impact on their services availed through Internet Banking.

H21: Degree of agreeability among customers[regarding banking interactions and transactions] across banks do not differ significantly.

H22: Degree of agreeability among bank officials[regarding banking interactions and transactions] across banks do not differ significantly.

H23: No significant difference between customers and bank officials perception regarding banking interactions and transactions.

H24: There is no gap between retail customers and bank officials perception regarding variables influencing banker-customer relationship.

H25: There is no gap between retail customers and bank officials perception of reasons for customers switching banks.

1.3 Scope

The study is primarily aimed at attracting and retaining customers by building relationships and increasing the contribution of existing customers to the bank’s revenue. On this account, the study throws light on the various factors contributing to relationship building.

In addition, the study would be beneficial in understanding what the customers expect from banks.
1.4 Limitations

The findings of the study are based on the responses given by sample respondents [both retail banking customers and bank officials] across six banks selected for the study, two each from nationalized, private sector and foreign banks operating in India. Retail Customers and bank officials responses are subject to personal bias.

The study has been made in the city of Chennai alone. As such, generalization of the study findings warrant enough care and caution.

1.5 Usefulness of the study

It portrays a clear picture about the practices of customer relationship management in Indian Retail Banking. In doing so, the research work provides ample information on various strategies that are very essential for customer relationship management. It also points out the various benefits which banks may get upon proper implementation of customer relationship management and the inherent limitations. Bankers, by following the relationship practices, can develop a strong base of loyal customers and by up-selling and cross-selling can economize their servicing cost and thereby earn more profit. In a nutshell, the study would benefit all concerned with the realm of banking in general, and retail banking in particular, in designing and executing appropriate strategies to attract, retain and expand customer base. This in turn would contribute towards enhancing the profit of banks.

1.6 Chapter Summary

In this contemporary scenario, customer relationship management constitutes an integral part of bank executives’ job. To execute their duties at par excellence, bank officials should have a sound comprehension of factors influencing customers in their selection of banks, their satisfaction level and their expectations, and the gap which exists between retail customers and bank officials with respect to the above. The study facilitates the bank officials in understanding the above dimensions and helps them generate more revenue and profit in a highly competitive scenario.

The ensuing chapter provides an insight into the research design and methodology adopted for the study.