CRM is considered as a management system to manage relationship between business and the customer. While using CRM in the service sector, especially in banking, the focus is on customer development. It helps in marketing their services and attracting larger number of customers. It helps to keep the existing customers loyal by using information gathered from the user and provide them with more personalised services in order to meet the expectations of the customer. CRM encourages banks to get more business from loyal customers. This is because, once the customers are satisfied with the services of the bank, they will stick on to the services for a longer period, ultimately enriching loyalty. This long term loyalty compels a customer to recommend other potential customers to use the services of the bank. Banks can collect feedback from customers to improve the quality of their services. Database of CRM will help banks in estimating the expectation of customers and can help in achieving benchmark quality of their services. Constantly increasing the quality of services will help banks to retain existing customers for longer period of time with loyalty. CRM also helps to identify most profitable customer group and to provide them with personalised services with greater value for money. This helps bank in reducing investment on advertisement and increase profit. Using CRM, banks can make smart decisions, use attractive offers and can plan to increase long term customers. CRM data base usually helps banks to get better edge on the competition and to attract more customers. Data base provides changing trends in the customer taste and to frame policies to suit the requirements, ultimately improving service quality leading to long term customer loyalty.

In this chapter a review of banking industry and CRM best practices and customer loyalty have been made. The chapter has been presented in two
sections- Section A: Banking industry and Section B: CRM best practices and customer loyalty.

**Section A**

BANKING INDUSTRY

**3.1 History of Banking**

The origin of banking is traced the early times of human history. Hindu sculptures and New Testament mention the activities of money exchange. In England, banking started when goldsmiths started accepting deposits from merchants and others. Ancestors of banks include religious temples, royal palaces, merchants, goldsmiths, money lenders, etc.

In the middle Ages, the Jewish money changers used to do their business sitting on a bench in the market place. The word ‘bank’ originated from different words like ‘banque’ from Middle French, ‘banca’, from Old Italian, ‘banc’ from Old High Germa, etc. During the renaissance of Florentine bankers ‘benches’ were used as desks or exchange counters. They used to do the transactions at top desks covered by green table cloths, which may be the reason to choose the name. Further, the word ‘Bankrupt’ is derived from the French word ‘Banque route’ which means ‘broken bench’. It is said that the evolution of banking business is as old as the concept of money.

Formally banking came into existence with the establishment of Bank of Venice in 1157. History reveals that Assyria and Babylonia started banking in 2000 BC in ancient Greece during Roman Empire. Two important innovations added by lenders based on temples were accepting deposits and changing money. In ancient China and India, archaeology shows the evidence of money lending activities.

Modern banking can be traced to medieval and early Italy during the period of renaissance. In Europe, during the 14th century, some families were dominant bankers and they established many branches in many parts of the country. In the year 1397, an Italian bank called Medici bank was established by Giovanni Medici. North Italy was the starting point of development of
banking and it spread to Europe. Germany started a bank by the state to regulate banking organisations in 1548. Thus the first central bank came into existence in Geneva in 1578. Innovative changes in banking field can be traced back to the 16th century in Dutch Republic and 17th century in London. Tremendous increase in size of banking business and geographical spread can be traced during 20th century due to developments in telecommunications.

3.2 History of Banking Sector in India

India had a system of banking from time immemorial. Metallic money was used during Mugal period and it was exchanged by indigenous bankers at that time. 17th century remarked banking activities by English traders through English Agency Houses. They were the prime bankers to East India Company and European merchants in India.

The first joint stock bank established in India was The General Bank of India in the year 1786. Further, the East India Company established three banks namely, Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843), all together called as ‘Presidency banks’. The first fully Indian owned bank Allahabad Bank was established in 1865. The next was the Bank of Hindustan, established in 1870. In the year 1894, Punjab National Bank was set up with head quarters at Lahore. During the period between 1906 and 1913, a number of banks like Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, Bank of Mysore, etc. were established. In the year 1921, Presidency banks were amalgamated to form The Imperial Bank of India.

On the basis of the recommendation of Central Banking Enquiry Committee of 1931, the RBI Act was passed in 1934 and the Reserve Bank of India, the central bank came into existence in 1935. The name of RBI was suggested by Hilton Young Commission in the year 1926. RBI was vested with extensive powers for the supervision of banking sector in India.

After independence, the Government adopted necessary steps for Banking Sector Reforms. RBI was nationalised in 1948. In order to streamline the functioning of commercial banks, the Government of India came up with
the Banking Companies Act, 1949, which was later changed to Banking Regulation Act, 1949 as per Amending Act No 23 of 1965. Banking regulation Act empowered RBI to regulate and monitor the commercial banks in India.

The All India Credit Survey Committee examined the issues of rural credit availability and recommended a state sponsored bank for opening bank branches in rural areas. State Bank of India Act was passed in 1955 based on this recommendation. Imperial Bank of India was nationalised and thus were taken over by State Bank of India in the year 1955. Seven banks forming subsidiaries of State Bank of India were nationalized in 1960.

A major process of nationalization was carried out on 19th July, 1969. Nationalisation is the process of bringing the ownership and control of banks under the government machinery in order to fulfil the social and developmental needs of the country. At the same time 14 major Indian commercial banks of the country were nationalized. Regional rural banks were established in 1976.

In 1980, another six banks were nationalized, and thus raising the number of nationalized banks to 20.80% of the banking segment in India at that time was under government’s ownership, till the year 1980. On the recommendation of Narsimhan Committee, the Banking Regulation Act was amended in 1993 and the new private sector banks were opened.

3.3 Trend of Banking Sector in India
The Indian Banking system currently consists of commercial banks, co-operative banks, specialised financial institutions and non-banking financial companies (NBFCs). The Reserve Bank of India acts as a centralised body monitoring any discrepancies and shortfalls in the system. Banking sector reforms, liberalisation and deregulation has opened new opportunities as well as competition from different areas for banks in India.

Due to unique geographical, social and economic features, Indian banking system is significantly different when compared to Asian Nations. India is characterised by its diverse culture, large population, larger land size, extreme disparities in income, etc. Indian economy is distinguished by high
levels of illiteracy along with large reservoir of managerial and technologically advanced talents. Economic policy of the country is a mixed framework combined with socialistic and capitalistic features with heavy investment in the public sector. India follows growth led exports with emphasis on self reliance by import substitution.

The banking system serves the goals of economic policies enunciated in successive five year development plans, balanced regional economic growth, equitable income distribution, and the reduction and elimination of private sector monopolies in trade and industry. In order to serve the banking industry as an instrument of state policy, it was subjected to various nationalization schemes in different phases. Hence, banking remained internationally isolated because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system.

Banking system in India was internationally isolated due to strict branch licensing controls on foreign banks already operating and entry restrictions to new foreign banks. A reciprocity criterion is required to be fulfilled by an Indian bank to open an office abroad. Moreover, the sector has been assigned the role of providing support to other economic sectors, such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centres. These features are the weaknesses and strengths of Indian banking sector. Table 3.1 shows the position of Indian banking sector during 2013-14.

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Items</th>
<th>Amount Outstanding (As at End-March)</th>
<th>Percentage Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Total Liabilities/assets</td>
<td>95,900</td>
<td>109,635</td>
</tr>
<tr>
<td>1.2</td>
<td>Deposits</td>
<td>74,297</td>
<td>85,331</td>
</tr>
<tr>
<td>1.3</td>
<td>Borrowings</td>
<td>10,104</td>
<td>11,008</td>
</tr>
<tr>
<td>1.4</td>
<td>Loans and advances</td>
<td>58,798</td>
<td>67,352</td>
</tr>
<tr>
<td>1.5</td>
<td>Investments</td>
<td>26,131</td>
<td>28,829</td>
</tr>
<tr>
<td>1.6</td>
<td>Off-balance sheet exposure (as percentage of on-balance sheet liabilities)</td>
<td>138.3</td>
<td>122.0</td>
</tr>
<tr>
<td>1.7</td>
<td>Total consolidated international claims</td>
<td>3,312</td>
<td>3,777</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>2</td>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Net profit</td>
<td>912</td>
<td>809</td>
</tr>
<tr>
<td>2.2</td>
<td>Return on Asset (RoA) (Per cent)</td>
<td>1.04</td>
<td>0.81</td>
</tr>
<tr>
<td>2.3</td>
<td>Return on Equity (RoE) (Per cent)</td>
<td>13.84</td>
<td>10.68</td>
</tr>
<tr>
<td>2.4</td>
<td>Net Interest Margin (NIM) (Per cent)</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>3</td>
<td><strong>Capital Adequacy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>Capital to risk weighted assets ratio</td>
<td>13.88</td>
<td>13.02</td>
</tr>
<tr>
<td>3.2</td>
<td>Tier I capital (as percentage of total</td>
<td>74.1</td>
<td>77.5</td>
</tr>
<tr>
<td>3.3</td>
<td>CRAR (tier I) (Per cent) @</td>
<td>10.29</td>
<td>10.09</td>
</tr>
<tr>
<td>4</td>
<td><strong>Asset Quality</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Gross NPAs</td>
<td>1,941</td>
<td>2,642</td>
</tr>
<tr>
<td>4.2</td>
<td>Net NPAs</td>
<td>987</td>
<td>1,427</td>
</tr>
<tr>
<td>4.3</td>
<td>Gross NPA ratio (Gross NPAs as</td>
<td>3.2</td>
<td>3.8</td>
</tr>
<tr>
<td>4.4</td>
<td>Net NPA ratio (Net NPAs as percentage</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>4.5</td>
<td>Provision Coverage Ratio (Per cent)**</td>
<td>47.6</td>
<td>44.3</td>
</tr>
<tr>
<td>4.6</td>
<td>Slippage ratio (Per cent)</td>
<td>2.8</td>
<td>3.8</td>
</tr>
<tr>
<td>5</td>
<td><strong>Sectoral Deployment of Bank Credit #</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1</td>
<td>Gross bank credit</td>
<td>49642</td>
<td>56572</td>
</tr>
<tr>
<td>5.2</td>
<td>Agriculture</td>
<td>5899</td>
<td>6694</td>
</tr>
<tr>
<td>5.3</td>
<td>Industry</td>
<td>22302</td>
<td>25229</td>
</tr>
<tr>
<td>5.4</td>
<td>Services</td>
<td>11519</td>
<td>13370</td>
</tr>
<tr>
<td>5.5</td>
<td>Personal loans</td>
<td>8976</td>
<td>10367</td>
</tr>
<tr>
<td>6</td>
<td><strong>Technological Development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1</td>
<td>Total number of credit cards (in</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>6.2</td>
<td>Total number of debit cards (in</td>
<td>331</td>
<td>394</td>
</tr>
<tr>
<td>6.3</td>
<td>Number of ATMs</td>
<td>114,014</td>
<td>160,055</td>
</tr>
<tr>
<td>7</td>
<td><strong>Customer Services</strong>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.1</td>
<td>Total number of complaints received</td>
<td>70,541</td>
<td>76,573</td>
</tr>
<tr>
<td>7.2</td>
<td>Total number of complaints addressed</td>
<td>69,704</td>
<td>78,745</td>
</tr>
<tr>
<td>7.3</td>
<td>Percentage of complaints addressed</td>
<td>92.7</td>
<td>95.9</td>
</tr>
<tr>
<td>8</td>
<td><strong>Financial Inclusion</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.1</td>
<td>Credit-deposit ratio (Per cent)</td>
<td>79.1</td>
<td>78.9</td>
</tr>
<tr>
<td>8.2</td>
<td>Number of new bank branches opened</td>
<td>7,757</td>
<td>10,738</td>
</tr>
<tr>
<td>8.3</td>
<td>Number of banking outlets in villages</td>
<td>268,454</td>
<td>383,804</td>
</tr>
</tbody>
</table>

**Notes**: 1. *: The number of complaints received and addressed are inclusive of RRBs and cooperatives. Total complaints include complaints received during the year plus pending at the beginning of the year. 2. **: Based on off-site returns. @Figures for 2014 are as per the Basel III framework. 3. Percentage variation could be slightly different as figures have been rounded off to million/billion. 4. #: Data are provisional and relate to select banks which cover about 95 per cent of total non-food credit extended by all scheduled commercial banks.

Source: RBI Data Warehouse, (Amount in Billion)
Attaining operational efficiency under current ownership structure suitable for modern needs is a challenge for Indian banking sector. Public sector is not facing many conflicts like private sector due to its government dominated ownership structure. Customer service is now given more priority in Indian banking system and that there is an increase in service quality offered by banks to customers (Table 3.1).

Table 3.2 shows the number of customers in thousands as on March 2015 in various bank groups in banking sector. The Table shows a clear representation of public and private sector banks and smallest representation of foreign banks. Males dominate in individual deposit holders compared to females.

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Deposits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individuals</td>
<td>Others</td>
</tr>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>SBI And Associates</td>
<td>283515</td>
<td>91083</td>
</tr>
<tr>
<td>Nationalised Banks</td>
<td>395231</td>
<td>234088</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>2435</td>
<td>849</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>91518</td>
<td>48621</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>103243</td>
<td>45676</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>1439892</strong></td>
<td><strong>1442396</strong></td>
</tr>
</tbody>
</table>

Source: RBI Data Warehouse (Number in 1000s)

**3.4 Structure of Indian Banking System**

Banking industry in India is divided into two categories-scheduled banks and non-scheduled banks. Scheduled banks consist of commercial banks and cooperative banks. While public sector banks, private sector banks, foreign banks and regional rural banks are coming under commercial banks, urban cooperatives and state cooperatives are coming under cooperative banks. Under private sector banks there are old generation banks and new generation banks. All these banks come under the Reserve Bank of India (Fig 3.1).
3.5 Reserve Bank of India

The apex bank or the central bank of the country, the Reserve Bank of India, was established on April 1\textsuperscript{st}, 1935 according to the provisions of RBI Act 1934. Since inception, its head-quarters are located in Mumbai. Initially it was privately owned but it was nationalised in 1949. RBI is fully owned by Government of India with an initial share capital of 5 crores and 22 regional offices across India. RBI is governed by a central board (headed by a governor) appointed by the central government of India. RBI regulates issue of bank notes, maintains reserves with a view to securing monetary stability, formulates monetary policies and operates credit and currency system of the country. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector. RBI prescribes broad parameters of banking operations within which the country’s banking and financial system functions. Their main objective is to maintain public confidence in the system, protect depositor’s interest and provide cost effective banking services to the public.
The main objective is to give the public adequate quantity of supplies of currency notes and coins in good quality. RBI performs the wide range of promotional functions to support national objectives, such as contests, coupons maintaining good public relations and many more. As a banker to government, RBI performs merchant banking function for the Central and the State governments; also acts as their banker. But as a banker to banks, RBI maintains banking accounts of all scheduled banks. RBI holds the cash reserves of all the scheduled banks, controls the credit operations of banks through quantitative and qualitative controls, controls the banking system through the system of licensing, inspection and calling for information and acts as the lender of the last resort by providing rediscount facilities to scheduled banks as a controller of credit.

Reserve Bank performs non-monetary functions like supervision of banks and promotion of sound banking in India. RBI has wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation under the Reserve Bank Act 1934 and the Banking Regulation Act 1949.

The RBI is authorized for periodical inspections of the banks and to call for returns and necessary information from them. RBI directs the growth of banking and credit policies towards more rapid development of the economy and realisation of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

The Bank now performs a variety of developmental and promotional functions, like promoting banking habit, extending banking facilities to rural and semi-urban areas, and establishing and promoting new specialized financing agencies which are considered as out of central banks functions.
3.6 Indian Scheduled Commercial Banks

Commercial banking structure in India consists of scheduled commercial banks, and non-scheduled banks. This classification was introduced during the establishment of RBI in 1935, and has been extended during the last two or three decades to include state cooperative banks, primary urban cooperative banks, and Regional Rural Banks. RBI is authorized to exclude the name of any bank from the Second Schedule if the bank, having been given suitable opportunity to increase the value of paid-up capital and improve deficiencies, goes into liquidation or ceases to carry on banking activities. Scheduled Banks in India constitute those banks which have been included in the second schedule of RBI Act 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6a) of the Act.

“Scheduled banks in India” means the State Bank of India constituted under the State Bank of India Act, 1955, a subsidiary bank as defined in the State Bank of India (subsidiary banks) Act, 1959, a corresponding new bank constituted under section 3 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1980, or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934, but does not include a co-operative bank”.

For the assessment of performance of banks, the Reserve Bank of India categorizes banks as public sector banks, old private sector banks, new private sector banks and foreign banks, i.e. private sector, public sector, and foreign banks come under the scheduled commercial banks.

3.7 Public Sector Banks

Banks where more that 50% shares are held by the government are classified as Public sector banks. Shares of such banks are listed in stock exchanges. Central Government of India entered banking business when they purchased 60% stake during nationalisation of Imperial Bank of India in 1955 and renaming as State Bank of India. The seven other State Banks became the subsidiaries of the new bank when nationalised on 19 July 1960.
The next major nationalisation of banks took place in 1969 when the government of India nationalised an additional 14 major banks. Banks having total deposits of 50 crore were nationalised in 1969. This move increased the presence of nationalised banks in India, with 84% of the total branches coming under government control. The next round of nationalisation took place in April 1980 with six banks having total deposits of 200 crore.

The objectives behind nationalisation were to break the ownership and control of banks by a few business families, to prevent the concentration of wealth and economic power, to mobilize savings from masses from all parts of the country and to cater to the needs of the priority sectors. This move led to a further increase in the number of public sector bank branches in the market, increasing to 91% of the total branch network of the country at that time. Indian economy is characterised by its dominance of public sector investment.

In 1969, the Government arranged the nationalization of 14 scheduled commercial banks in order to expand the branch network, followed by six more in 1980. A merger reduced the number from 20 to 19 banks. Nationalized banks are wholly owned by the Government, although some of them have made public issues. In contrast to the State Bank group, nationalized banks are centrally governed, i.e., by their respective head offices. Thus, there is only one board for each nationalized bank and meetings are less frequent, generally once a month. The State Bank group and nationalized banks are together referred to as the public sector banks (PSBs). India has 27 public sector banks working across the country.

Table 3.3 gives a clear picture of the performance of public sector banks in India in the past nine years. The CAGR brings out the progress over a period of time, providing a clear picture of investment. Deposits of public sector banks grew from 1,436,540 crores to 57,456,972 crores and its compound annual growth rate is 50.66%. Advances grew from 8,542,147 crores to 44,727,740 crores and its compound annual growth rate is 20.2%. The number of branches grew from 48,480 to 75,184 and its compound annual growth rate is 5%. The
number of employees grew from 741480 to 801659 and its compound annual growth rate is 0.87%. Capital Adequacy ratio or Capital to Risk Weighted Assets Ratio shows compound annual growth rate of 0.19%.

### Table 3.3: Performance of Public Sector Banks in India

<table>
<thead>
<tr>
<th>Year</th>
<th>In Crores</th>
<th>In Numbers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deposits</td>
<td>Advances</td>
<td>Branches</td>
</tr>
<tr>
<td>2005-06</td>
<td>1436540</td>
<td>8542147</td>
<td>48480</td>
</tr>
<tr>
<td>2006-07</td>
<td>1622481</td>
<td>11062877</td>
<td>50171</td>
</tr>
<tr>
<td>2007-08</td>
<td>1994200</td>
<td>14401465</td>
<td>52108</td>
</tr>
<tr>
<td>2008-09</td>
<td>2453868</td>
<td>17974008</td>
<td>55103</td>
</tr>
<tr>
<td>2009-10</td>
<td>31127471</td>
<td>22592117</td>
<td>57850</td>
</tr>
<tr>
<td>2010-11</td>
<td>36920194</td>
<td>27010187</td>
<td>61630</td>
</tr>
<tr>
<td>2011-12</td>
<td>43724487</td>
<td>33044329</td>
<td>65686</td>
</tr>
<tr>
<td>2012-13</td>
<td>50020134</td>
<td>38773075</td>
<td>70807</td>
</tr>
<tr>
<td>2013-14</td>
<td>57456972</td>
<td>44727740</td>
<td>75184</td>
</tr>
<tr>
<td>CAGR%</td>
<td>50.66</td>
<td>20.2</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Report on Trends and Progress of Banks in India (Various issues)

### 3.8 State Bank Group

This consists of the State Bank of India (SBI) and five Associate Banks of SBI. The Reserve Bank of India (RBI) owns the majority share of SBI and some Associate Banks of SBI. SBI has 13 head offices governed each by a board of directors under the supervision of a central board. The boards of directors and their committees hold monthly meetings while the executive committee of each central board meets every week.

### 3.9 Regional Rural Banks

In 1975, the State Bank group and nationalized banks were required to sponsor and set up Regional Rural Banks in partnership with individual states to provide low-cost financing and credit facilities to the rural masses. It was established under the provisions of an ordinance passed in September 1975 and the RRB Act 1976 to provide sufficient banking facilities for agriculture and rural sectors. RRBs are local level banking organisations operating in different states of India. Area of operation for RRBs is limited to areas notified by Government of India. Major functions include providing banking facilities to rural and semi-urban areas, dispersal of wages to MGNREGA workers,
distribution of pension etc. They also provide other facilities like locker facilities, debit and credit cards etc. Due to its non representation in all areas, the present study excluded RRBs.

3.10 Other Public Sector Banks
The Industrial Development Bank of India Ltd. is incorporated under Companies Act 1956 and the main shareholder being the central government has been categorized under a New Sub-Group "Other Public Sector Banks" and as a result another classification of bank came into existence for a single bank.

3.11 Private Sector Banks
Banks where greater portion of shares are held by private shareholders are called private sector, being the major player in banking sector in India. During the last two centuries, banks equipped themselves with contemporary innovations, monetary tools and techniques to handle the complexities. Thus they have grown faster and stronger since past few years. Private-sector banks have been functioning in India since the very beginning of the banking system.

In 1921, the Imperial bank of India was dominant but in 1935 the Reserve Bank of India came into the picture and took control of the banking system. Between 1969 and 1980 there was rapid increase in the number of branches of the private banks and they accounted for nearly 17.5 per cent of bank branches in India. In 1980, after 6 more banks were nationalised, about 10 per cent of the bank branches were those of private-sector banks. From early 1990 onwards, government gave licenses to a few private banks called as new private sector banks. The old private-sector banks have been operating since a long time and may be referred to those banks, which are in operation from before 1991 and all those banks that have commenced their business after 1991 are called as new private-sector banks. HDFC Limited was the first private sector bank in India to receive license from RBI as a part of RBIs liberalisation.
3.12 Old Generation Private Sector Banks
The banks, which were not nationalized at the time of bank nationalization that took place during 1969 and 1980, are known to be the old private-sector banks. Due to their small size and regional focus, these banks were not nationalised. These banks are closely held by certain communities their operations being restricted to the areas of its origin. Their Board of directors mainly consists of locally prominent personalities from trade and business circles. One of the positive points of these banks is that they depend heavily on service and technology and as such they are likely to attract more business in days to come with the restructuring of the industry round the corner.

3.13 New Generation Private Sector Banks
The banks, which came in to operation after 1991, with the introduction of economic reforms and financial sector reforms are classified as new private-sector banks. Banks having a minimum net worth of Rs. 100 crore and promoters holding minimum 25% of the paid up capital, and having 3 years of operative history were included in this group.

Table 3.4: Performance of Private Sector Banks in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposits In Crores</th>
<th>Advances In Crores</th>
<th>Deposits In Numbers</th>
<th>CRAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>3146297</td>
<td>2213033</td>
<td>5575</td>
<td>12.4</td>
</tr>
<tr>
<td>2006-07</td>
<td>428456</td>
<td>3129618</td>
<td>6836</td>
<td>12.42</td>
</tr>
<tr>
<td>2007-08</td>
<td>551987</td>
<td>4147513</td>
<td>7322</td>
<td>12.1</td>
</tr>
<tr>
<td>2008-09</td>
<td>675033</td>
<td>5184024</td>
<td>8325</td>
<td>14.34</td>
</tr>
<tr>
<td>2009-10</td>
<td>7363776</td>
<td>5753276</td>
<td>9241</td>
<td>15.23</td>
</tr>
<tr>
<td>2010-11</td>
<td>8228007</td>
<td>6324409</td>
<td>10452</td>
<td>17.43</td>
</tr>
<tr>
<td>2011-12</td>
<td>10027588</td>
<td>7975440</td>
<td>12031</td>
<td>16.46</td>
</tr>
<tr>
<td>2012-13</td>
<td>11745874</td>
<td>9664030</td>
<td>13408</td>
<td>16.21</td>
</tr>
<tr>
<td>2013-14</td>
<td>13958355</td>
<td>11432486</td>
<td>15909</td>
<td>16.84</td>
</tr>
<tr>
<td>CAGR%</td>
<td>18</td>
<td>20.02</td>
<td>12.36</td>
<td>3.46</td>
</tr>
</tbody>
</table>

Source: Report on Trends and Progress of Banks in India (Various issues).

Table 3.4 gives a clear picture of the performance of private sector banks in India in the past nine years. The CAGR brings out the progress over a period of time, providing a clear picture of investment. Deposits of private sector banks grew from 3,146,297 crore to 13,958,355 crore and its compound
annual growth rate is 18%. Advances grew from 2,213,033 crore to 11,432,486 Crore and its compound annual growth rate is 20.2%. Number of branches grew from 5,575 to 15,909 and its compound annual growth rate is 12.36%. Number of employees grew from 81,040 to 269,941 and its compound annual growth rate is 14.3%. Capital Adequacy ratio or Capital to Risk Weighted Assets Ratio shows compound annual growth rate of 3.46%.

### 3.14 Foreign Banks

A foreign bank is a bank that was established in a different country and is also serving customers of another country. Foreign banks operate in India, just the way the local banks do. They are bound by all the rules and regulations that are applicable to banks based out of India and they are governed by the Reserve Bank of India that controls/governs all banks operating in India. Since the foreign banks are not having enough representation in the selected region of present study, they are not included in the study.

#### Table 3.5: Performance of Foreign Banks in India

<table>
<thead>
<tr>
<th>Year</th>
<th>In Crores</th>
<th>In Numbers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deposits</td>
<td>Advances</td>
<td>Branches</td>
</tr>
<tr>
<td>2005-06</td>
<td>863892</td>
<td>758183</td>
<td>242</td>
</tr>
<tr>
<td>2006-07</td>
<td>113745</td>
<td>975619</td>
<td>259</td>
</tr>
<tr>
<td>2007-08</td>
<td>150750</td>
<td>1263386</td>
<td>272</td>
</tr>
<tr>
<td>2008-09</td>
<td>191161</td>
<td>1611328</td>
<td>279</td>
</tr>
<tr>
<td>2009-10</td>
<td>214076</td>
<td>1653846</td>
<td>295</td>
</tr>
<tr>
<td>2010-11</td>
<td>2320995</td>
<td>1632604</td>
<td>310</td>
</tr>
<tr>
<td>2011-12</td>
<td>2406668</td>
<td>1955106</td>
<td>318</td>
</tr>
<tr>
<td>2012-13</td>
<td>2769477</td>
<td>2298468</td>
<td>323</td>
</tr>
<tr>
<td>2013-14</td>
<td>2879997</td>
<td>2636799</td>
<td>334</td>
</tr>
<tr>
<td>CAGR%</td>
<td>14.32</td>
<td>14.85</td>
<td>3.64</td>
</tr>
</tbody>
</table>

Source: Report on Trends and Progress of banks in India (Various issues)

Table 3.5 gives a clear picture of the performance of foreign banks in India in the past nine years. The CAGR brings out the progress over a period of time, providing a clear picture of investment. Deposits of foreign sector banks grew from 863,892 crore to 2,879,997 crore and its compound annual growth rate is 14.32%. Advances grew from 758,183 crore to 2,636,799 crore and its compound annual growth rate is 14.85%. Then number of branches grew from
242 to 334 and its compound annual growth rate is 3.64%. Further, number of employees grew from 20,002 to 25,384 and its compound annual growth rate is 2.68%. Capital Adequacy ratio or Capital to Risk Weighted Assets Ratio shows compound annual growth rate of 3.60%.

3.15 Non-scheduled Banks

“Non scheduled Bank in India” means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank”.

3.16 Cooperative Banks

Some banks are organized on cooperative basis, and they accept deposits and lend money in all parts of the country. Cooperative banking, as discussed here, includes retail banking as well as commercial banking services to cooperative businesses. Due to its non representation in all areas, the present study excludes this type of bank.

3.17 Evolution of Banking Sector in Kerala

Till 1947, Kerala was a combination of three political entities; the Princely States of Travancore, Kochi, and the Malabar district of the erstwhile Madras Presidency of British India. After Indian independence, as part of abolishing princely states, Travancore and Kochi were integrated in 1949 into one state. Later in 1956, consequent on the reorganisation of States on linguistic basis, Malabar was added to it. The present state of Kerala was formed after taking away a few taluks in the south extreme part of Travancore and Kochi. So, evolutionary process in these three regions becomes a major part of the study. Princely states were independent but were economically integrated with the rest of India. History refers to the fact that, Travancore, Cochin and Malabar- was devoid of caste based professional moneylenders in early times.

The earliest and most popular forms of money mobilizing and credit providing enterprise in the State were a deposit cum advance cum lottery combination popularly called as chitty or kuri. But they were not able to fulfil the financial needs of the people at that time. They were poorly organised on
small scale basis during initial stages. During the 19th century, other financial agencies emerged as a result of social and economic growth.

The banking system evolved separately in the regions constituted an integral component of the all-India banking system. After independence, the banking system got further integrated with the national banking increasingly. Today almost all sectors like public, private, foreign, regional rural banks, co-operative banks etc constitute almost major shares in the market.

### Table 3.6: Bank-wise Number of Branches of Commercial Banks Functioning in Kerala

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Banks in Kerala</th>
<th>No of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Allahabad Bank</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Andhra Bank</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>Axis Bank Limited</td>
<td>22</td>
</tr>
<tr>
<td>4</td>
<td>Bank of Baroda</td>
<td>56</td>
</tr>
<tr>
<td>5</td>
<td>Bank of India</td>
<td>83</td>
</tr>
<tr>
<td>6</td>
<td>Bank of Maharashtra</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Bank of Rajasthan Ltd.</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Canara Bank</td>
<td>281</td>
</tr>
<tr>
<td>9</td>
<td>Catholic Syrian Bank Ltd.</td>
<td>251</td>
</tr>
<tr>
<td>10</td>
<td>Central Bank of India</td>
<td>84</td>
</tr>
<tr>
<td>11</td>
<td>Citibank</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>City Union Bank Limited</td>
<td>10</td>
</tr>
<tr>
<td>13</td>
<td>Corporation Bank</td>
<td>66</td>
</tr>
<tr>
<td>14</td>
<td>Dena Bank</td>
<td>12</td>
</tr>
<tr>
<td>15</td>
<td>Federal Bank Ltd.</td>
<td>385</td>
</tr>
<tr>
<td>16</td>
<td>HDFC Bank Ltd.</td>
<td>129</td>
</tr>
<tr>
<td>17</td>
<td>Hongkong and Shanghai Banking Corpn.Ltd.</td>
<td>2</td>
</tr>
<tr>
<td>18</td>
<td>ICICI Bank Limited</td>
<td>60</td>
</tr>
<tr>
<td>19</td>
<td>IDBI Bank Limited</td>
<td>10</td>
</tr>
<tr>
<td>20</td>
<td>Indian Bank</td>
<td>87</td>
</tr>
<tr>
<td>21</td>
<td>Indian Overseas Bank</td>
<td>147</td>
</tr>
<tr>
<td>22</td>
<td>Indusind Bank Ltd.</td>
<td>14</td>
</tr>
<tr>
<td>23</td>
<td>ING Vysya Bank Ltd.</td>
<td>24</td>
</tr>
<tr>
<td>24</td>
<td>Jammu &amp; Kashmir Bank Ltd.</td>
<td>2</td>
</tr>
<tr>
<td>25</td>
<td>Karnataka Bank Ltd.</td>
<td>11</td>
</tr>
<tr>
<td>26</td>
<td>Karur Vysya Bank Ltd.</td>
<td>8</td>
</tr>
<tr>
<td>27</td>
<td>Kotak Mahindra Bank Ltd.</td>
<td>3</td>
</tr>
<tr>
<td>28</td>
<td>Lakshmi Vilas Bank Ltd.</td>
<td>5</td>
</tr>
<tr>
<td>29</td>
<td>North Malabar Gramin Bank</td>
<td>182</td>
</tr>
<tr>
<td>30</td>
<td>Oman International Bank S.A.O.G.</td>
<td>1</td>
</tr>
<tr>
<td>31</td>
<td>Oriental Bank of Commerce</td>
<td>11</td>
</tr>
<tr>
<td>32</td>
<td>Punjab And Sind Bank</td>
<td>3</td>
</tr>
<tr>
<td>33</td>
<td>Punjab National Bank</td>
<td>135</td>
</tr>
<tr>
<td>34</td>
<td>South Indian Bank Ltd.</td>
<td>307</td>
</tr>
<tr>
<td>35</td>
<td>South Malabar Gramin Bank</td>
<td>219</td>
</tr>
</tbody>
</table>
From Table 3.6 it is clear that, the State bank of Travancore has the largest number of branches in public sector and Federal bank has largest number of branches in the old private sector functioning in Kerala.

Table 3.7: Operational and Financial Performance of State Bank of Travancore

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of offices</td>
<td>756</td>
<td>781</td>
<td>826</td>
<td>910</td>
<td>1028</td>
<td>21301</td>
<td>92114</td>
</tr>
<tr>
<td>No. of employees</td>
<td>11365</td>
<td>12192</td>
<td>11735</td>
<td>12597</td>
<td>12525</td>
<td>293965</td>
<td>1096984</td>
</tr>
<tr>
<td>Business per employee</td>
<td>65.80</td>
<td>69.60</td>
<td>88.80</td>
<td>106.60</td>
<td>125.90</td>
<td>101.97</td>
<td>121.33</td>
</tr>
<tr>
<td>Profit per employee</td>
<td>0.50</td>
<td>0.60</td>
<td>0.80</td>
<td>0.42</td>
<td>0.50</td>
<td>0.60</td>
<td>0.83</td>
</tr>
<tr>
<td>Capital and Reserves &amp; Surplus</td>
<td>22499</td>
<td>28406</td>
<td>34635</td>
<td>38662</td>
<td>43650</td>
<td>1253189</td>
<td>7089300</td>
</tr>
<tr>
<td>Deposits</td>
<td>420411</td>
<td>508834</td>
<td>581579</td>
<td>714698</td>
<td>846237</td>
<td>16184449</td>
<td>74295324</td>
</tr>
<tr>
<td>Investments</td>
<td>132317</td>
<td>158444</td>
<td>179270</td>
<td>224376</td>
<td>272255</td>
<td>4729979</td>
<td>26132752</td>
</tr>
<tr>
<td>Advances</td>
<td>326014</td>
<td>384613</td>
<td>460442</td>
<td>553460</td>
<td>674836</td>
<td>13792240</td>
<td>58797025</td>
</tr>
<tr>
<td>Interest income</td>
<td>41232</td>
<td>43781</td>
<td>52288</td>
<td>68961</td>
<td>86348</td>
<td>1637677</td>
<td>7636115</td>
</tr>
<tr>
<td>Other income</td>
<td>5731</td>
<td>5280</td>
<td>5812</td>
<td>5809</td>
<td>6530</td>
<td>197442</td>
<td>977866</td>
</tr>
<tr>
<td>Interest expended</td>
<td>28406</td>
<td>29779</td>
<td>35327</td>
<td>49984</td>
<td>65066</td>
<td>1065334</td>
<td>5138027</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>7994</td>
<td>9559</td>
<td>11013</td>
<td>12299</td>
<td>14302</td>
<td>370940</td>
<td>1565855</td>
</tr>
<tr>
<td>Net Interest Margin</td>
<td>2.75</td>
<td>2.57</td>
<td>2.60</td>
<td>2.42</td>
<td>2.27</td>
<td>2.98</td>
<td>2.79</td>
</tr>
<tr>
<td>Cost of Funds (CoF)</td>
<td>6.08</td>
<td>5.58</td>
<td>5.40</td>
<td>6.20</td>
<td>6.88</td>
<td>5.96</td>
<td>6.12</td>
</tr>
<tr>
<td>Return on advances</td>
<td>4.37</td>
<td>3.88</td>
<td>4.14</td>
<td>4.25</td>
<td>4.11</td>
<td>3.93</td>
<td>4.21</td>
</tr>
</tbody>
</table>
adjusted to CoF

<table>
<thead>
<tr>
<th>Wages as % to total expenses</th>
<th>13.40</th>
<th>15.64</th>
<th>15.11</th>
<th>12.65</th>
<th>11.15</th>
<th>16.20</th>
<th>13.02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Equity</td>
<td>30.64</td>
<td>26.88</td>
<td>23.09</td>
<td>13.93</td>
<td>14.94</td>
<td>15.29</td>
<td>13.84</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>1.30</td>
<td>1.26</td>
<td>1.12</td>
<td>0.65</td>
<td>0.66</td>
<td>0.88</td>
<td>1.03</td>
</tr>
<tr>
<td>CRAR</td>
<td>14.03</td>
<td>13.74</td>
<td>12.54</td>
<td>13.55</td>
<td>11.70</td>
<td>12.67</td>
<td>13.88</td>
</tr>
<tr>
<td>Net NPA ratio</td>
<td>0.58</td>
<td>0.91</td>
<td>0.98</td>
<td>1.54</td>
<td>1.46</td>
<td>2.04</td>
<td>1.68</td>
</tr>
</tbody>
</table>

Source: RBI Data Warehouse, (Amount in million)

Table 3.7 shows that the number of employees of the State bank of Travancore increased from 756 to 1028 from the year 2008-09 to 2012-13. In order to deal with an increased number of offices the total number of employees was also increased. The table reveals that employees increased from 11365 to 12525 from the year 2008-09 to 2012-13. When the number of offices and the number of employees were increased, business per employee increased from 65.80 to 125.90. This ultimately resulted in a slight increase in profit per employee, which shows that increasing customer relation and retention measures can create profits for the business.

Table 3.8: Operational and Financial Performance of Federal Bank

<table>
<thead>
<tr>
<th>Items</th>
<th>Old Private Sector Banks</th>
<th>Federal Bank</th>
<th>All Banks' Aggregate 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of offices</td>
<td>639</td>
<td>700</td>
<td>771</td>
</tr>
<tr>
<td>No. of employees</td>
<td>7570</td>
<td>7896</td>
<td>8270</td>
</tr>
<tr>
<td>Business per employee</td>
<td>75.00</td>
<td>81.30</td>
<td>92.30</td>
</tr>
<tr>
<td>Profit per employee</td>
<td>0.69</td>
<td>0.60</td>
<td>0.70</td>
</tr>
<tr>
<td>Capital and Reserves &amp; Surplus</td>
<td>43259</td>
<td>46904</td>
<td>51087</td>
</tr>
<tr>
<td>Deposits</td>
<td>321982</td>
<td>360580</td>
<td>430148</td>
</tr>
<tr>
<td>Investments</td>
<td>121190</td>
<td>130546</td>
<td>145377</td>
</tr>
<tr>
<td>Advances</td>
<td>223919</td>
<td>269501</td>
<td>319532</td>
</tr>
<tr>
<td>Interest income</td>
<td>33154</td>
<td>36732</td>
<td>40520</td>
</tr>
<tr>
<td>Other income</td>
<td>5158</td>
<td>5309</td>
<td>5168</td>
</tr>
<tr>
<td>Interest expended</td>
<td>19999</td>
<td>22624</td>
<td>23054</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>5715</td>
<td>6769</td>
<td>8361</td>
</tr>
<tr>
<td>-------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Net Interest Margin</td>
<td>3.69</td>
<td>3.42</td>
<td>3.67</td>
</tr>
<tr>
<td>Cost of Funds (CoF)</td>
<td>6.32</td>
<td>6.11</td>
<td>5.26</td>
</tr>
<tr>
<td>Return on advances adjusted to CoF</td>
<td>6.10</td>
<td>5.44</td>
<td>5.49</td>
</tr>
<tr>
<td>Wages as % to total expenses</td>
<td>12.35</td>
<td>12.45</td>
<td>15.29</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>1.48</td>
<td>1.15</td>
<td>1.34</td>
</tr>
<tr>
<td>CRAR</td>
<td>20.22</td>
<td>18.36</td>
<td>16.79</td>
</tr>
<tr>
<td>Net NPA ratio</td>
<td>0.30</td>
<td>0.48</td>
<td>0.60</td>
</tr>
</tbody>
</table>

Source: RBI Data Warehouse, (Amount in million).

Table 3.8 shows that the number of employees of Federal Bank increased from 639 to 1128 from the year 2008-09 to 2012-13. In order to deal with the increased number of offices the total number of employees was also increased. The table reveals that employees increased from 7570 to 10059 from the year 2008-09 to 2012-13. When the number of offices and the number of employees were increased, business per employee increased from 75.00 to 101.10. This ultimately resulted in a huge increase in profit per employee, which shows that increasing customer relation and retention measures can create profits for the business.

### 3.18 Retail Banking

Retail banking the greatest innovation of the 21st century, experienced rapid growth in Indian retail banking. It is mass market banking where individual customers use local branches of commercial banks to complete their transactions like savings, checking accounts, mortgages, personal loans, debit cards, credit cards etc. Retail banking in India is growing and the same is expected in the future. Technology, increased competition, innovations, economic growth, deregulation, change in lifestyle, etc. boosted the growth of retail banking in India.

Indian retail banking segment includes cards- credit, debit and ATM, housing loans, personal loans, consumption loans, education loans, vehicle
loans, insurance, demat services and online services. It is a key profit driver and spectacular innovation in the banking sector in recent times. Economic growth, which is cited as one of the important propellers of the growth of retail banking in India, is reflected in the income of the households. Income can be mainly divided into consumption and savings. Both provide fuel to the engine of retail banking.

The face of the Indian consumer is changing and is reflected in the urban household income pattern and ultimately changes consumption patterns and banking habits of Indians. Banks are now a days setting up new delivery channels, due to lower transaction costs, increased sales and productivity. They are increasing the range of products through digitalisation, off-site and on-site delivery channels etc bringing new product development, speed of transaction, processing and reduction in transaction cost. The increase in the deposits shown during the last 12 years is a proof for retail banking sector flourishing during this period (Figure 3.1).

![Figure 3.2: Growth of Deposits in Retail banking Sector in India](source: RBI, TechSci Research FY16* till May 29th)

During the last 5 years, retail banking sector has gained tremendous growth with vast opportunities and challenges. Constant innovation in retail
banking includes product development and differentiation, innovation and business process re-engineering, micro planning, marketing, prudent pricing, customization, technological upgradation and cross selling.

### Table 3.9: Branches and ATM’s of Commercial Banks in India

<table>
<thead>
<tr>
<th>Bank type</th>
<th>Branches</th>
<th>On-site ATMs</th>
<th>Off-site ATMs</th>
<th>Total ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalised banks</td>
<td>33,627</td>
<td>38,606</td>
<td>22,265</td>
<td>60,871</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>13,661</td>
<td>28,926</td>
<td>22,827</td>
<td>51,753</td>
</tr>
<tr>
<td>Old private sector banks</td>
<td>4,511</td>
<td>4,761</td>
<td>4,624</td>
<td>9,385</td>
</tr>
<tr>
<td>New private sector banks</td>
<td>1,685</td>
<td>12,546</td>
<td>26,839</td>
<td>39,385</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>242</td>
<td>295</td>
<td>854</td>
<td>1,149</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>53,726</strong></td>
<td><strong>85,134</strong></td>
<td><strong>77,409</strong></td>
<td><strong>1,62,543</strong></td>
</tr>
</tbody>
</table>

Source: RBI Data Warehouse.

The growth of retail banking is evidenced from the increase in the number of ATMs and bank branches. Total ATMs of SBI are now 51,753, Old private sector bank 9,385, new private sector bank 39,385, and foreign bank are 1,149. This shows that banks have started investing in offsite and onsite ATMs to increase customer satisfaction. The total number of ATMs is almost double and triple of the number of branches that banks have as on March 2015 (Table 3.9).

### Section B

CRM BEST PRACTICES AND CUSTOMER LOYALTY

#### 3.19 Concept of Customer Relationship Management

CRM involves organising, automating business processes through a model for managing customer interactions. It includes attracting and winning new customers, retaining existing customers, reducing cost of operation and marketing etc. CRM describes measuring and valuing customer relationships through quality and efficiency, decrease in overall costs and increase profitability. Even though CRM has a significant advantage, the lack of senior management sponsorship can also hinder the success of a new CRM system. Another area of difficulty is an interface which is difficult to navigate or understand.
There is an industry-wise shift in evaluation of CRM softwares. Creating and maintaining a strong business reputation has become now increasingly challenging for bankers these days. The outcome of internal fragmentation that is observed and commented upon by customers is now visible to the rest of the world in the era of the social customer. In the past, only employees or partners were aware of it. Solving the issues of fragmentation requires drastic change in philosophy and mindset of an organization. Human response at all levels of the organization can affect the customer experience. Even one unhappy customer can deliver a body blow to a business.

Even though the main function of CRM is to collect information about clients, it should also consider customers’ need for privacy and data security keeping relevant laws and regulations. Bankers should assure that their data will not be shared with third parties without prior consent, and illegal access can be prevented with certain measures.

Challenges in this field include providing ease of use interface and suitable security measures. Often it is difficult to provide a balance between these two challenges, because improvements in security measures are done at the cost of system usability. Breach of security occurs due to user error like downloading and executing a computer virus without any intention to do it. If the CRM system is more secured it creates less confusion and user errors.

3.20 Evolution of CRM
Customer based marketing and relationship management were evolved following an increase in the need for collecting, storing and analysing customer level information. This was the starting point of the term Customer Relationship Management in the mid 1990’s. Initially the collection and storage of customer information was limited to the sales and service functions, and the data bases were independently used by different functional groups. As a result, Sales Force Automation (SFA) and Customer Service Support (CSS) existed as two independent systems. The integration of a number of
independent sub systems was the biggest challenge for CRM. Growth of internet positively strengthened CRM on the way.

Since 1990’s, CRM has undergone several evolutions, Historical perspective started with First Generation or Functional CRM approach which was the product of two independent subsystems like Sales Force Automation (SFA) and Customer Service Support (CSS). SFA concentrated on pre-sales functions as maintaining prospect and customer data, telemarketing, generating leads, customer sales quotations, and placing sales orders. CSS addressed after sales activities like help desks, call centres, field service support, etc. Even though both worked independently they delivered sales and service improvement.

Second generation or customer front end approach started from 1999 with more CRM technology and its implementation. Customer expectations far exceeded the realised actual benefits of CRM. Internet started fulfilling new expectations of customers. But it was realised that revenue cannot be increased through technology. A strategic approach and the understanding of the needs and processes were required.

A third generation CRM or strategic approach was thus picking up by the end of 2002. The gap between customers’ perceived value and realised value became closer. Focus was given to integrating customer facing front end systems to back end systems as well as with partners and suppliers. Strategic approach CRM was boosted by internet technology and many organisations realised that the ultimate goal of CRM is to grow the revenue line and not just control the cost line.

3.21 CRM Best Practice in Banks
Best practices have been a part of banking business so far. Best practices usually concentrate on some frameworks like customer acquisition, customer response, customer knowledge, customer information system, customer value evaluation etc. Banks usually uses different measures and approaches to meet urgent requirements of customers as well as to attract new customers. Bank
usually adopts the method of using customer information to attract target customers, plan new products and services etc. Customers come from varying socio-economic and cultural backgrounds. Their perception about the banking services is so dynamic that it may differ from customer to customer and even for the same customer at different points of time, depending on their mood and mind-set. So they have to be satisfied with personalized services and attractive best practices.

Banks are trying to provide all types of services online now a days and they are tailoring products according to the personal requirements of customers. Prompt response to customers’ problems, suggestions and complaints has become a best practice in banking sector. Banks are very keen in keeping the front office neat and tidy and always ensure that customers are not kept in queue for long hours to ensure satisfaction. They always try to provide high quality services encouraging trust with the bank and making each transaction an enjoyable experience for the customers.

Security measures have been strengthened to ensure free online transactions by adopting OTP (One time Passwords) for each online transaction. ATMs are now easily available with core banking facilities which encourage repeated transactions with the bank. They always ensure a comprehensive range of investment products to customers to suit the different requirements. Banks have started encouraging customers to introduce other customers to purchase the products and services of the customers. Almost all the practices adopted by banks in order to increase healthy relationship with customers are classified as best practices in banking industry.

The banking industry is highly competitive, because banking products are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today’s ever-increasing banking competitive environment. The business value results achieved by best-in-class banking
retailers have created a new set of best practices to be adopted by retailers overall. Hyper-educated consumers have higher expectations for their retail experience, and hyper-sensitive shareholders have higher expectations for results. These expectations can be fulfilled only through best practices adopted by banks.

Information technology may not be a cure to all problems; it is definitely an enabler and a differentiator to offer products and services. The banks as well as customers have a serious concern about the security of Internet access to client account which is the biggest challenge. With the advent of computers and ATMs, the gap between the customers and the banking personnel is widening. Banks which take care to see the reality and react early will survive and prosper, while those who continue the traditional path will find their market share eaten away. In order to survive in this competitive environment and provide continual customer satisfaction, the providers of banking services are now required to continually improve the quality of services.

Banking sector is improving the overall quality of customer services through flexible and appropriate information technology services. The costs of acquiring customers are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship. So retaining customers is more profitable. In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. Additionally, long-term customers also take less of the company’s time and are less sensitive to price changes. This will reduce cost of operation of banks ultimately leading to return on investment. Thus long term relationship can be enhanced through best practices.

As the age of customers’ increases, the propensity to stay with their current banks also rises. Along with that, respondents with higher education are most likely to switch banks, perhaps because highly educated consumers tend to have greater expectations of services. Gender and income appear not to have significant association with the respondents’ intention to stay with or leave
their service providers. Maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Banks lose satisfied customers who have moved, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority. Retention can only be enabled through best practices in banking sector.

CRM best practices are attended of by all service sectors with due care and diligence especially by banks due to the intangibility of their products and services. Strong relationship banking supported by best practices can help banks in retaining their customers in the long run and enrich the so called customer loyalty. The ultimate goal of CRM is to grow the revenue line and not just controlling cost line which can be boosted through best practices adopted by banks.

### 3.22 Significance of CRM in Banking Sector

CRM in banks has evolved from a customer facing application to a customer-centric strategy that manages the complete cycle from customer interactions to branch operations through central operations. This is because the relationship between a banker and a customer depends on the activities products or services provided by the bank to its customers or availed of by the customer. Today, many businesses such as banks, insurance companies, and other service providers realize the importance of CRM and its potential to help them acquire new customers retain existing ones and maximize their lifetime value. At this point, close relationship with customers will require a strong coordination between IT and marketing departments to provide a long-term retention of selected customers.

CRM is a sound business strategy to identify the bank’s most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, repricing, discretionary decision making, and customized service—all delivered through the various sales channels that the bank uses. CRM is not just a technology, but a total philosophy which is to be implemented in the whole
organization from top to bottom level. Best practices adopted by banks will reasonably contribute to retention of customers. But many banks are unable to meet the expectations of the customers and gap between the availability of facilities and expectations of customers have widened.

In this new information technology era, the speed of service distinguishes one bank from another. Quick service is considered as quality service because time is considered as an important factor which determines a banks’ quality and expectations. Successful development, implementation, use and support of customer relationship management systems in banks can provide quality and efficiency, decrease in overall costs, decision support, enterprise agility and customer attention. Continued investment in CRM practice has confirmed the belief that value lies in targeted customer relationships. This is actually a growing proof about the profitable impact of the right customer relationships in banking industry. The economies of CRM improve with drop in data capture and storage costs and thus it becomes an attractive investment in this sector. Banks are now aware that CRM investments need to be based on accurate metrics that take into account expected returns.

CRM in the banking sector usually boosts the growth of market share in their business. CRM changes the way of thinking of employees and makes them customer conscious and it induces bankers to maintain healthy, long lasting and strong relationship with the customers. Owing to technological innovations banking products are now easily available at cheaper costs. Retail banks today recognise the importance of creating, maintaining and winning the confidence of customers in the long run through CRM. Today technology has grown so fast that banking transactions can be done even through your mobiles, laptops and personal computers. Physical branch transactions have changed to e-branch transactions; because banks are now faceless and nameless. There the challenge starts as to how to increase your ROI with an electronic customer.
CRM plays an active role in this sector by increasing return through minimum costs in banking sector.

The introduction of a system to access the customer satisfaction is the need of the hour. And this led to the concept of practising relationship banking, as the retaining of an existing customer is easier than winning a new one. Net Banking is increasingly a necessity rather than innovative tool. So with increasing consumer demand, banks have to upgrade and constantly think of new innovative customised packages and services to remain competitive which the backbone of Customer Relationship Management is. Managing Customer relationship is the future of every business and it is not just a business strategy but a corporate mission. Once good service is extended to a customer, a loyal customer will work as an ambassador to the bank and facilitate growth of business. For delivering quality service, it is imperative to have customer service as a culture in bank. Good customer service in banks should have three basic tenets – courtesy, accuracy and speed. Quality of products and services is the dynamic factor which enhances customer satisfaction in banks. CRM is a vital factor to improve the performance of banks.

Increased customer satisfaction levels will lead to greater customer retention rate, which is a key determinant for customer loyalty, simultaneously improved customer retention generates more profit also. Banks everywhere are delivering the same products and Bank prices are fixed and driven by the marketplace. Thus, bank management tends to differentiate their firm from competitors through service quality. Service quality is an imperative element impacting customers’ satisfaction level in the banking industry. High switching costs are an important factor binding the customer to the service organisation. Even with relatively low levels of satisfaction, the customer continues to patronise the service provider because repurchasing is easier and more cost effective than searching for a new provider or sampling the services of an unknown provider.
In the banking sector, there are no recognized standard scales to measure the perceived quality of a bank service. Thus, competitive advantage through high quality service is an increasingly important weapon to survive. Measuring service quality seems to pose difficulties to service providers because of the unique characteristics of services: intangibility, heterogeneity, inseparability and perishability. As banks increasingly understand the value of forming profitable long term relationships with their customers, the CRM is actually taking in deep roots. The traditional CRM solutions have focused on building competitive advantage for banks in terms of products, services, pricing, etc, but the new and the evolving view focuses on building sustainable competitive advantage that cannot be imitated by the competitors.

Relationship banking encourages referral business in retail banking sector contributing to cross selling products and services. A long term relationship creates an awareness of customers’ needs and preferences, helping banks to tailor products and services accordingly. Long term customers will be more comfortable with methods and procedures of banks ultimately helping to reduce operating costs. New generation CRM manages the customers by offering the most suitable products or services to the most profitable ones among them with a basketful of products based on customer profiles. Today, the CRM industry has become a fast growing industry where billions of dollars are being spent on CRM applications, consulting and training every year. The emergence and development of CRM have been driven by the shift from transactional to relationship based markets. Hence, it is high time that banks started adopting the so called CRM best practices to increase their customer life time as an addition to investment in CRM.

3.23 CRM Practices in Banking Sector in the World
Banks around the world are focusing on the customer these days. Leveraging social media, redefining branch concept and targeting a specific segment are the different approaches used by banks to encourage customer centricity. The Danish Dankshe Bank is leveraging crowd sourcing via social media to become
a better bank. They used Face Book to improve their mobile banking app, mortgages and housing loans, etc. Instead of using social media to control its image, they used the dialogue as a vital contribution to developing its strategy. Netherland banks have reorganised their branches into a network of advisory-focused, cashless banking shops, which is a physical extension of the web. SNS Bank in Netherlands provided branches as store like outlets, it has open spaces, tablets that customers are free to use, extended operating hours etc. The original concept of branch banking has disappeared and consultant style mobile sales forces have emerged.

OCBC (Oversea-Chinese Banking Corporation) one of the Singapore’s leading banks, launched its FRANK concept targeting ‘Generation Y’ using the slogan ‘the brand new way to bank’. Customers are serviced in FRANK retail stores rather than OCBC branches. The store is modelled like a shopping experience that ‘Gen Y’ is comfortable with. In the United States, TD Bank formerly Commerce bank focuses on customer experience by providing branches which are opened 24 X 7 days in a week. They use mystery shopping to monitor branch status and staff service attitudes on a regular basis. They acknowledge outstanding performance by honouring great employees with ‘WOW Awards. These initiatives nominated them as “America’s Most Convenient Bank” and were ranked highest in customer satisfaction with retail banking in the Mid-Atlantic Region repeatedly.

Metro Bank in the UK brought about a tremendous cultural revolution by extended banking hours, convenient banking services, fancy branch design and services, etc. Royal Bank of Canada created a Client Experience Council of 10 top leaders to monitor customer experience progress and ensure satisfaction. National Australia Bank (NAB Europe) pursued a partnership CRM strategy for over 10 years and has won numerous awards for its efforts. In short, banks worldwide use CRM in an advanced version to create and maintain customers. Customer retention is deep rooted in such a way that traditional CRM measures have gone out of the way. Even branch banking concept has changed
drastically to consultant style bank sales force. Many new innovative styles of CRM tactics have been developed by many countries which can be an inspiration for a growing economy like India.

### 3.24 CRM Practices in Banking Sector in India

Best practices are those practices adopted by banks to keep the customers with them. The globalization of Indian economy has truly called for much more disciplined approach on the part of Indian banking sector to improve the overall quality of customer services through smart use, absorption and adoption of flexible and appropriate information technology along with best practices. The costs of acquiring customers are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship. Indian banking sector also adopted such practices in order to compete with foreign banks operating in India. It includes activities like providing customized services and products to key customers, constantly surprising and delighting key customers, strengthening the emotional bonds with our key customers by greeting them on important occasions, using the concept of ‘Relationship Pricing’ in pricing their different products or services, co-branding or affinity partnering programs to provide increased value to customers, leveraging the power of word of mouth publicity by using Referral Marketing programs and cross selling of products / services to increase customer share. CRM practices adopted by banking sector are given in the following table (Table 3.10).

As a consequence of economic reforms, Indian banking sector is going through drastic changes. Competition requires recognition of the value of consumers and the importance to address the needs and wants of these customers through the technologically innovative products in the form of reorganization of branch networks, reduction in manpower, drastic reduction in costs, encouraging the skills of the staff, and innovative ways of attracting talented managerial workforce. When banks adopt best practices, top level management accepts the challenge of providing leadership for strengthening customer relationships. Banks are compelled to provide easy to use system
design, a variety of distribution channels and deliver a consistent customer experience across all branches, touch points, encounters, etc. For a better Customer-centric performance, standards will be established and monitored at all customer touch points. Responsibilities of frontline employees will have to be clearly defined, assigned and understood in CRM encounters. Training should be given to employees to develop skills on customer building. Employees are encouraged and empowered to exceed customer expectations.

Table 3.10: CRM Practices in Banking Sector

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>CRM Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Establishment of transparency in transactions</td>
</tr>
<tr>
<td>2</td>
<td>Adopting new marketing techniques for satisfying customers</td>
</tr>
<tr>
<td>3</td>
<td>Ensures front office to be neat/tidy</td>
</tr>
<tr>
<td>4</td>
<td>Providing mutual fund services to satisfy customers</td>
</tr>
<tr>
<td>5</td>
<td>Good manners in dealing with customers through telephone</td>
</tr>
<tr>
<td>6</td>
<td>Taking care of non customers who come to bank for general utility services</td>
</tr>
<tr>
<td>7</td>
<td>Adopting customer retention measures for debit and credit card customers</td>
</tr>
<tr>
<td>8</td>
<td>Ensures enough cash balance in ATMs for satisfying customers</td>
</tr>
<tr>
<td>9</td>
<td>Never keeps customers waiting for operating lockers</td>
</tr>
<tr>
<td>10</td>
<td>Adopts 'special' rate of interest to attract customer’s deposits</td>
</tr>
<tr>
<td>11</td>
<td>Charging low interest on loan to get more customers</td>
</tr>
<tr>
<td>12</td>
<td>Providing net banking facilities with necessary security measures.</td>
</tr>
<tr>
<td>13</td>
<td>Ensuring quality in all its services.</td>
</tr>
<tr>
<td>14</td>
<td>Keeping good relationship with customers.</td>
</tr>
<tr>
<td>15</td>
<td>Implementing marketing techniques to delight customers</td>
</tr>
<tr>
<td>16</td>
<td>Computerized all services to ensure fast services to customers.</td>
</tr>
<tr>
<td>17</td>
<td>Having a proper system of grievance redressal system</td>
</tr>
<tr>
<td>18</td>
<td>Updates the brochures and other materials</td>
</tr>
<tr>
<td>19</td>
<td>Increasing operating hours bank is ensuring customer services</td>
</tr>
<tr>
<td>20</td>
<td>Creating friendly environment inside bank</td>
</tr>
<tr>
<td>21</td>
<td>Winning back lost customers</td>
</tr>
<tr>
<td>22</td>
<td>Establishing electronic contact with customers</td>
</tr>
<tr>
<td>23</td>
<td>Prompt services in mean time</td>
</tr>
<tr>
<td>24</td>
<td>Ensuring updation of customer data base</td>
</tr>
<tr>
<td>25</td>
<td>Individual customer care programs</td>
</tr>
<tr>
<td>26</td>
<td>Establishing customer call centres</td>
</tr>
<tr>
<td>27</td>
<td>Sending greetings to customers on birthdays, wedding anniversaries, seasons like Onam, Christmas, Ramzan etc</td>
</tr>
<tr>
<td>28</td>
<td>Entertaining customer feedbacks for further improvements</td>
</tr>
<tr>
<td>29</td>
<td>Conducting awareness programs on new products</td>
</tr>
<tr>
<td>30</td>
<td>Ensuring service quality through different measures</td>
</tr>
</tbody>
</table>

Source: Report on Trends and Progress of banks in India (Various issues)
In best practices, customer feedback has to be dealt with seriously and replying to them within a limited time is important. Information and complaints from customers should be used to design or improve banks products and services and to analyse the causes of customer defects through exit interviews, lost customer surveys. This will help to win back customers who have a strong customer background. Customer recovery strategies can be enforced using different measures with the help of customer’s feedback. But banks must ensure confidentiality of data collected from customers. Banks should do customer segmentation using Customer Lifetime Value (CLV)/ related metrics and has a process in place to obtain and validate customers’ permission to interact with them through various channels. Bank should use technology to automate marketing, sales, and service functions. Information systems are to be designed to give comprehensive data about all aspects of banks customers, so that bank can be responsive to them. The CRM software of banks should provide for integration of touch points to obtain a single view of the customer at every point of customer.

3.25 CRM Practices in Banking Sector in Kerala

Kerala is a state with high literacy rate where majority of the population depends on banks to do their transactions. Kerala being noted for its beauty and climatic conditions attracts tourists worldwide. Banks in Kerala are competitive enough to satisfy the demands of tourists during their visit. CRM practices adopted by banks usually contribute towards the return on the investment they have made. Banks have started the practice of asking “May I help you?” and using a board in front of reception that helps customers to get a platform for their enquiry, complaints, suggestions etc as a best practice in banking sector in Kerala. Compared to initial years of CRM implementation, the behaviour of employees has transformed into a culture of smile and greeting throughout the transaction with a customer. Banks have started providing basic amenities to customers like chairs, sofa, LCD television, drinking water, bathrooms, etc for customers.
Event oriented prospecting, mass customisation, flexible manufacturing of products, internet services, advice to customers are the frequently used best practices in Kerala. Keeping data base of customers and sending birthday greetings, wedding anniversary greetings, season’s greetings etc have become a part of banking business. Customer data is utilised to send information about new products and services available with banks and a performance analysis of bank throughout the year. Dissatisfaction starts with poor service, long queues, and inability of the bank to meet customer needs, lack of proper ambience, and lack of humility that prevents banks from meeting customer needs etc. Customer’s complaints can be avoided through prompt collection of cheques, faster payment/receipts in cash counter, positive attitude of the counter staff, proper adherence to the standing instructions to the customers, correct crediting of interest on deposit accounts and avoiding fraudulent withdrawals, seeking only required documents for processing loan applications and timely sanctioning of loans at reasonable market related interest rates.

Providing internet security is now a challenge for banks and it has been solved through OTP (One Time Password) for each transaction. Banks have started providing services like statement requests, cheque book requests, new account opening requests, debit and credit card requests, opening mutual fund SIP requests, ATM card blocking and unlocking requests, etc through online banking in order to avoid branch transactions and customer convenience. Banks are also providing lists of latest transactions. Banks are moving gradually beyond universal banking and positioning themselves as financial service providers. Banking business is getting redefined because technology is unsettling the earlier business process and the customer’s behavior is undergoing a change which enhanced the forces of competition. To survive under these conditions, the banks will have to undertake business process reengineering, redefine their strategy and HR strategies to the overall business strategy and technology will become a key driver of a banking business.
Funds transfers with other accounts and customers other accounts, downloadable bank statements in PDF and other formats, stop payment of a cheque, advice change of address, submitting loan applications, bill payments online, electronic shopping, opening letter of credit, subscribing to Initial Public Offers, investing in mutual funds, etc can be done through online. These online transactions have reduced time and cost of operation which makes them the best practice in the industry. By providing anywhere any time banking services through ATM, internet banking and mobile banking customer convenience have increased. The utility bill presenting and payment has helped customers to pay their bills online at the click of a button. Electronic clearing system and electronic funds transfer have facilitated faster funds movement and settlement for the customers of different banks and different centres. The electronic data interchange and cash management service facilities have proved to be better funds management for the customer.

The quality and quantity of banking products increased and as a result of this, recent developments in marketing thoughts in services such as internal marketing, network marketing, data base marketing and relationship marketing became more favourable practices. Banking sector reforms have changed the traditional way of doing banking business. The primary work of the bank is be to bring in proper assimilation of human resource management strategies with the business strategies. More than operational skills today, banks call for ‘soft skills’ to attend to the needs and requirement of the customers at the counter. Mainly technology is the outcome of banking reforms. Customer is now the king and customer focus or satisfaction of customer is the main aim of the banks. With the introduction of new products and services competition has grown up among the banks. Only those banks will survive who face the competition with the effective and innovative ways of marketing.

Even though banks have adopted best practices, some practices are still unattended and need due revision and reengineering in future. Customers are never kept unattended in banks as they will lose confidence in their banks.
Huge amount is invested every year in training employees on how to deal with customers and how to retain them in this competitive world. Best practices implemented by banks keep the customers with the bank for a long time and customer retention/satisfaction can contribute to customer loyalty.

### 3.26 Customer Loyalty

Customer loyalty is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situation influence and marketing efforts having the potential to cause switching behaviour. The behaviouristic approach to customer loyalty means analysing evident consumer behaviour and purchase intentions, whereas the neo-behaviouristic approach implied greater focus on loyalty causes and customer attitudes to the provided goods and services. Loyalty can be behavioural and attitudinal. Behavioural loyalty includes repeat purchase, word of mouth, etc, while attitudinal loyalty includes trust or emotional attachment. Behavioural loyalty does not necessarily reflect attitudinal loyalty, because there might exist other factors that prevent customers from defecting. Customer loyalty has been additionally related to profit levels and one of the key objectives of CRM.

The future of every business rests with managing customer relationship. Today it is not a business strategy, but a corporate mission. When customers get good customer experience, they become loyal. A loyal customer will automatically work as an ambassador to the bank and facilitate growth and development of business. In order to enhance quality of services in banks, customer service should be ensured as a culture in bank. The most significant determinants of customer loyalty with reference to banking services are perceived quality of service, positive recommendations of friends and relatives, personal experience, security of on-line banking, customer service, technology security, information quality, technology convenience, and technology usage easiness and reliability, customer involvement and efficient customer relationship management.
Thus, customer loyalty is an attitude which indicates an individual’s overall attachment to a product, service, or brand. It is a behaviour which can be evaluated in the form of repurchase, word of mouth, and increasing the scale and scope of a relationship. Despite several studies in customer loyalty, there is no consensus on the most appropriate way to measure loyalty.

3.27 CRM Vs Customer Loyalty
CRM can be considered to be successful only when it can contribute to customer loyalty. But usually it cannot be assumed that satisfaction always leads to customer loyalty. A customer who chooses a nearest bank for convenience will do all the transactions with that bank and it cannot be assumed that he is a loyal customer, but in general a long term customer is assumed to be a customer who is satisfied with the services and are loyal. That means customer satisfaction often leads to customer loyalty. This is because a highly satisfied customer transacts continuously for a long time, accepts new products and services with much satisfaction, speaks about the bank to others, neglect competitors products and services, offers suggestions and ideas about products and services to the firm. A customer who is highly satisfied can thus become a loyal customer in the long run.

In order to create customer loyalty, banks need to forget price, quality and service levels and to concentrate on other key customer issues. Banks should identify the best and profitable customers and treat different customers with different packages. Banks should understand and use Return on Investment marketing in order to retain valuable customers. CRM and its best practices often create customer satisfaction which can be profitably converted into customer loyalty in banking sector. Increasing customer retention, selling through existing customers, keeping VIP customers with bank, re-engineering products and services for special customers, rewarding the most profitable customers, keeping personal touch during follow up of transactions, keeping appointments for customers or scheduling time with your customers, sending thanks cards to profitable customers, sending personal letters to VIP customers,
evaluating customer complaints and giving quick response, etc. can contribute to customer retention and long term loyalty.

It is a fact that keeping customers is cheaper than creating new ones. This is because acquiring customers is expensive only during initial stages. Further, if long term customers buy more and if they feel satisfied with the service, they will become word of mouth promoter of the company. Along with that, long term customers usually take less time for completing transactions and they are also less sensitive to price changes. These things highlight the opportunities of referral business and its profitability through customer retention. Customer retention improves profitability principally by reducing costs incurred in acquiring new customers. There is, however, a distinction between customers who are simply retained and those who are loyal. The concept of consumer inertia implies that some customers are only being retained, rather than expressing loyalty. Truly loyal customers are usually portrayed as being less price-sensitive and more inclined to increase the number and frequency of purchases. They may become advocates of the organisation concerned and play a role in the decision making of their peers or family. Satisfaction with a bank's products and services thus also plays a role in generating loyalty that might be absent in the retention situation.

Customer loyalty is therefore not the same as customer retention, as loyalty is distinct from simple repurchase behaviour. Loyalty is only a valid concept in situations where customers can choose other providers. Companies thus need to understand the nature of their consumers’ reasons for staying and must not assume that it is a positive, conscious choice. Highly educated customers are likely to switch banks as they have higher expectations. Gender and income appear not to have significant association with the respondents’ intention to stay with or leave their service providers. These results lead to suggestions for bank managers to consider as to how they might improve customer retention in today’s competitive banking environment.
The longer a customer stays with an organisation, the more utility the customer generates. On the other hand, to draw tentative conclusions as to why consumers appear to remain loyal to the same financial provider, even though in many instances they hold less favourable views toward these service providers. Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates, with research providing ample justification for customer retention efforts by banks. However, maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Banks lose satisfied customers who have moved, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority. Literature shows that longevity does not automatically leads to profitability.

Many consumers appear to perceive little differentiation between financial providers, making any change essentially worthless. Secondly, consumers appear to be motivated by convenience or inertia. Finally, consumers associate changing banks with high switching costs in terms of the potential sacrifice and effort involved. Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates, with research providing ample justification for customer retention efforts by banks. However, there has been little empirical research that investigates the constructs leading to customer retention. Banks must realize that all customers don’t want a very intimate relationship with the bank or ask for the same level of service quality. There are customers who transact at less personal level. This means closeness will not always contribute to customer satisfaction leading to retention. So banks need to distinguish such customers and satisfy them accordingly.

Customer loyalty is long lasting, uninterrupted, retention of relationship with profitable customers by offering products and services that can create customer satisfaction beyond the level of satisfaction expected by such customers. But it is very difficult to design such a product or service in service
industry like banking where products cannot be differentiated, but banks are facing the challenge by offering the products in different ways and bundling them according to tailor made personalised products and services along with added best practices. Banking sector faces the challenge of offering identical products, so in order to differentiate the products they started with best practices. Even though such practices are being used in the industry frequently, it has not been so identified as ‘Best practices’. In order to ensure customer satisfaction, retention and customer loyalty, banks need to develop many best practices to survive in this digitalised world. As innovations are continuing, best practices are still being the topic of discussion in this field.

To conclude, though the economy has thrown many opportunities and challenges to CRM best practices in service sector, especially the banking sector; there are drawbacks and hardships in the implementation of these best practices. The authorities have not yet given enough care and devotion to the development of advanced CRM best practices as like other developed countries. Let’s hope that we will move towards such technologically advanced best practices in the near future.