India’s emerging marketplace is witnessing several challenges. Wavering economic conditions, waning rupee value, diverse consumer segments, and the insurgence of multiple players are all thinning the slice while trying to operate in a cost-effective manner. Besides these decelerating factors, the market scenario is also outpouring with a rise in consumer infidelity and fickleness. Rapid technological adaptations are leading to the need for banks to be adept in offering superior product solutions. Despite all the above challenges, India still features prominently among the world’s future drivers of the economy. India holds an enviable position and is next only to China in its share in world GDP among emerging markets\(^1\). This trend is consolidated in the subsequent year also, in which India has been ranked the third largest Economy\(^2\). The Banking system has played a significant role in
building such a sound and healthy economy that is prevalent in India, the major reason being the banks catering to the credit needs of all sections of the metropolitan and reaching out to the remote corners of the country.

1.1 Evolution of Banking in India

The origin of banking dates back to even before 2000 BC to the city of Babylonia, where the temples and palaces were considered as places for the safekeeping of valuables. The receipt that was issued in return was further used, to transfer these items to third parties. There were also laws governing such banking activities. In due course, these receipts were used as currency notes, facilitating the transfer of funds from person to person, and place to place. Banking in India evolved from the traders’ bank during the 18th century which was primarily engaged in financial activities, to the Presidency Banks. The Presidency Banks of these days were Bank of Bengal/Calcutta in 1809, Bank of Bombay in 1840 and the Bank of Madras in 1843. They formed the Imperial Bank of India. The Allahabad Bank established in 1865 was the first bank to be completely run by the Indians. The Punjab National Bank Ltd. was set up in 1894 and between 1906 and 1913, several banks like the Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were established. In the year 1921, all Presidency Banks were merged to form the Imperial Bank of India which was owned by European shareholders. Eventually in 1955, State Bank of India (SBI) with its ubiquitous blue disc was constituted under the SBI Act of 1955 to undertake the business of Imperial Bank of India. Later, major strides unfolded during 1969 and 1980, when Nationalization altered the face of banking in India from private ownership to public ownership. The next concrete step unfurling another growth story
began with the introduction of Indian Financial & Banking Sector Reforms and Partial Liberalization in the period 1990-2004. Increased Liberalization post-2004 became the vital basis for the booming invasion of private and foreign banks driving the competitive scenario further and empowering as well as imparting financial literacy to millions of Indians. At present, the banking sector has a diverse structure comprising of a large chunk of scheduled banks and the remaining of a small fraction of non-scheduled banks.

The Reserve Bank of India (RBI), India's Central Bank, established in the year 1935 holds complete control over the Indian Banking System from formulating monetary policy with regard to the Indian rupee, to assuming a supervisory role in the Indian financial system and managing the foreign exchange affairs. RBI also plays a developmental role in performing a wide range of promotional functions to support national and industrial objectives. Amidst all these responsibilities, RBI also takes steps in improving the operational efficiencies of banks and other financial institutions by implementing prudent risk management activities. The principal agency of RBI was assigned to SBI, as it handles all the banking transactions of the nation. RBI at present, as an autonomous body with the Government of India, has realized the status of the huge unbanked population and has insisted that banks develop low-cost products and services specifically designed for the needs of customers residing in rural areas. This confirms the role, RBI and the banks have to the economic sustenance and growth of the nation. Liberalization revolutionized banking in India post-1990, with New Generation Tech savvy banks like Global Trust Bank which later was amalgamated with Oriental Bank of Commerce, which initiated the private
banking. ICICI Bank, Axis Bank (earlier UTI Bank) and HDFC Bank joined
the bandwagon. Subsequently, the combined contributions from the three
players, namely public, private and foreign banks, brought along a rapid
growth to the economic environment of the nation.

1.2 The Present Indian Banking Scenario

An outline of the Indian Banking industry is as follows:
1) Reserve Bank of India
2) Indian Scheduled Commercial Banks
   a) State Bank of India and its five subsidiaries
   b) Twenty Nationalized Banks
   c) Regional Rural Banks
   d) Other Scheduled Commercial Banks
3) Foreign Banks
4) Non-Scheduled Indian Banks
5) Cooperative Banks

Apart from the above-mentioned classification of banks based on the
organized status, banks in India can be categorized on their business activity
and the product segmentation as well. By means of business activity, the
banks can be grouped together into four broad heads, namely retail banking,
wholesale banking of large corporate and mid-corporate, treasury operations
and other banking activities. Banks also differ in the products they offer
through their branches, specifically the deposit products, credit products and
customized services, and products like guarantee and advisory services,
derivatives, insurance and investment products and services etc.
Interestingly there have also been specific laws formulated by the RBI to tangibilize the relationship between the customer and the bank called the ‘Banking Law’, which lays the rights and obligations of both the parties. Some of them pertaining to areas like holding/using a bank account/cheque note, the disclosure of the account balance, the necessity in maintaining transparency/ confidentiality, misappropriating transactions and legalities associated with them, payment of interest/charges by and to the customers etc. Such acts help the banks to operate observing the customers’ need as the focal point and keep the customers aware of their duties as responsible account holders and experience the services without any impediments. Some of the significant acts are The Banking Regulations Act, 1949, Reserve Bank of India Act, 1934 and Negotiable Instruments Act, 1881.

Again, with a thought to providing institutional mechanisms for promoting rural savings as well as for the provision of credit for viable economic activities in the local areas, RBI decided to permit the formation of new Local Area Banks (LAB) in the private sector. This is likely to bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban regions. The bank shall be registered as a public limited company under the Companies Act, 1956. It will be licensed under the Banking Regulation Act, 1949 and will be eligible to be included in the Second Schedule of the Reserve Bank of India Act, 1934. The promoters of the bank may comprise individuals, corporate entities, trusts, and societies. In the application for a banking license, the details of the initial contribution of promoters, and the manner and method through which the minimum share capital of ₹ 5 crore will be raised, will need to be
indicated. The area of operation of the proposed bank shall be a maximum of three geographically contiguous districts\(^6\).

Now-a-days, with technology proliferating the marketplace, banks have had to embrace, wherever possible, its potential to cater to the tech-savvy generation. Technology, however, has a straddled effect on banks. It improves the operational efficiencies by reaching out to newer markets and reduces the cost by opening avenues for customers to bank without physically visiting a bank. Banks are struggling to post even moderate growth. Regions like Europe/ North America, where the average per cent growth is estimated to be 4 per cent in a group of 30 Global banks, followed 0.5 per cent retail revenue growth for 2008-2011. Bankers have identified three critical areas that will give them the impetus to achieve the growth targets. They are, engaging customers and regaining customer trust, protecting payments business against progressive disintermediation from new entrants (e.g. Google Wallet, PayPal) and evading commoditization through proper customization. In other words, the banks can incorporate one of the three models in their businesses:

a. Building on enhanced multichannel, wherein the seamless experience that engages the customers is focused on, is called the “Intelligent multichannel bank”.

b. Leveraging Social Media wherein, customer intimacy is focused upon through increased interactions. It is called the “Socially Engaging Bank”.

c. Placing the Bank in the center wherein, an ecosystem is created with both financial and non-financial needs, supplemented by the power of mobile technology, called as the “Financial/Non-Financial Digital Ecosystem Bank”.

\(^6\)
Analysis pertaining to the growth targets recommend that adopting these models by the banks, especially in the emerging markets, will lead to doubling-up of the annual revenue growth rates from about 4 to 8 per cent\textsuperscript{7}.

### 1.3 Banking Channels

There are certain principles too, that banks adhere to, while conducting business in their day-to-day activities like liquidity, safety, profitability, secrecy and service quality. The above-mentioned products and services were provided by the banks through a single channel namely bank branches. Banks extended to developing and utilizing non-branch channels like ATMs (Automated Teller Machines), POS (Point of Sale) terminals, phone banking, internet banking, and mobile banking to facilitate faster and cost effective delivery of products. Yet again, core banking solutions have enabled banks to exploit the alternate channels, offering all customers a $24 \times 7$ access from a single location at costs considerably lower than maintaining the branches. The convenience of customers has also been enhanced by offering home delivery and pickup of cash and cheques to high net-worth individuals free of charge and with a minimal charge for small business. Except the ATM which is cash enabled channel, all other transactions which are performed in a branch, can be done over the internet as well. With the active and aggressive promotion of the use of these channels by banks to the customers, at present, more than 70\% of transactions take place in channels other than bank branches\textsuperscript{8}.

In banking, relationship with the customer is established by opening an account. In this relationship, the bank agrees to provide banking services as per the norms specified by the bank, and the customer agrees to
avail the services and also conduct the account as per the terms and conditions specified by the bank, prior to starting the account. The Know Your Customer (KYC) requirement defines a customer as “a person or entity that maintains an account and/or has a business relationship with the bank”. The customer can also be defined as “one on whose behalf the account is maintained (the beneficiary of the trust)”. The type of relationship with the customer can be varied, depending on the kind of service rendered. For example, if the service is a loan, the bank will be the creditor and the customer will be the debtor. In the case of a deposit, the bank will be the debtor and the customer, a creditor. In a pledge for security, the bank will be the pledgee and the customer a pledger, and so on. Consequently, with the type of relationship held, the rights and obligations of each party will differ, based on the service rendered. However, any type of relationship with customers, meeting their expectation and needs, leads to customer satisfaction. Highly satisfied customers are loyal to services offered. They increase their purchase, provide positive word-of-mouth regarding the services offered, and are indifferent to competitors’ marketing efforts. They are not price sensitive, and eventually they will provide the bank’s feedback on the products and services offered.

1.4 Research Gap

The retail banking environment is experiencing significant changes. Retail banking customers are substantially more dynamic than they were a decade back. They are demanding more customized products and services. These progressions force noteworthy new demands on retail banks, if they are to stay competitive. The answer lies in reconfiguring the banks’ business
processes specifically, upgrading, automating, institutionalizing and customizing operations. Banks today, confront complex difficulties on numerous fronts. Customer expectations are higher than ever, with a developing interest for more quick service delivery, and more adaptable, customized collaboration.

Again, retail banking in India being early adopters of customer relationship management activities alongside different organizations varying in sizes and crosswise over segments. They utilized these activities to amass customer data, find profiles of customers and utilize the customer knowledge in their categorical marketing activities. However, how impactful they have been in generating customer satisfaction is the definite measure of success for such customer relationship management adoption in retail banking.

Within this context, this study endeavors to discover the gap that existed between the expectation and perception of the customers of retail banking products and channels in this very aggressive economic banking environment. In addition to this, the service quality and customer relationship management based services provided by banks to these customers are studied in-depth to unravel the effectiveness of the banking strategies. The past studies had revealed that customers might not be satisfied with the assortment and range of products, quality of customer service and communication, and dispositions of bank staff. In any case, a gap was seen between the bank's goal in actualizing customer relationship management exercises and the perception of the customers who are receiving these products and services in the manner it gets executed. The study looks into whether the customer relationship management implementers might have been extremely complacent about these perspectives
or furthermore detached about the customers' discernments, needs and desires.

1.5 Problem Statement

Banks that develop intimate relationships with customers have gained advantages like repeat purchase, commitment to the bank, emotional attachment with the bank which includes trust and liking towards the bank for its ability to respond effectively to customer problems. To measure the tangible returns of the customer relationship management usage over the resources expended to the planning, developing and executing of customer relationship management is not easy. This difficulty is overcome by studying the intangible elements like service quality, customer loyalty, and innovation of operation, value enhancement, trust and efficiency. Customer relationship management does not provide any direct monetary gains in terms of ROI. Rather, there is a large scale investment needed as software and hardware in its implementation. Perhaps, what makes customer relationship management implementation productive to banks is the long term benefit that a bank reaps. It is measured on a long-standing relationship developed with the customer, resulting in retention and loyalty.

The Indian banking system is diverse, with banks being public sector holding and private sector holding. All these banks have transformed themselves into profit-oriented businesses in addition to their integral role in the development of the economy. By being profit oriented, banks have become more competitive and customer-oriented. However, banks that jump into customer relationship management implementation without clear directions or goals communicated from the top management, actually fail in integrating the employees, technology and business activities. This research
Introduction

critically examines the implementation of customer relationship management activities in banks and their impact on service quality and customer’s loyalty in both public and private sector banks in India.

1.6 Operating Definitions of Key Terms

Relationship Marketing – Relationship marketing is “establishing relationships with customers and other parties at a profit, by mutual exchange and fulfillment of promises”\textsuperscript{13}.

Customer Relationship Management (CRM) – “Customer relationship management is a comprehensive strategy and process of acquiring, retaining, and partnering with select customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value”\textsuperscript{14}.

Primary Bank (PB) - “Primary bank refers to the bank where respondents have their primary checking account”\textsuperscript{15}.

Customer Knowledge (CK) – “Customer knowledge aims to adapt processes, products and services to customers’ needs in order to build a healthy and profitable customer relationship. The banking companies gather information and the insight they need to build stronger customer relationships.”

Customer Acquisition (CA) – “Customer acquisition is one of the processes that bring new customers to the marketer. The primary purpose of acquisition based practices should be handled with less consumption of time and cost. The customer acquisition initiatives should provide adequate requirements to the customers.”
**Customer Value Evaluation (CVE)** – “Customer value evaluation is an essential part of customer relationship management dimension. The customer value evaluation process consists of online survey, post and pre-customer perceived value, through product and services. The bank should periodically conduct customer audit meets to evaluate its customer service performance through the customer data”.

**Customer Response (CR)** – “Customer response is the term used to describe the customer query and issues handled by the banks. If the bank deals with the customer query in a poor way it will result in dissatisfaction. The impoverished customer response oriented practices work out through technology. The bank offers new types of services, schemes and they should be intimated to the customer”.

**Customer Information System (CIS)** – “Customer information system helps a business to attract, and win new customers, retain those the company already has, and reduce the costs of marketing and customer service. It provides adequate and complete information to the customer. Complete information will lead to customer satisfaction”16.

**Service Quality** – “Service quality is the overall evaluation of a specific service firm that results from comparing that firm’s performance with the customer’s general expectations of how firms in that industry should perform”17.

**Perceived Service Quality** – “Perceived service quality refers to customer’s judgment about a service provider’s overall excellence. This judgment is the result of the difference between customer expectations and perception of the actual performance of the service. The given idea is reflected in the widely known instrument for measuring service quality
RATER/SERVQUAL”. This instrument is structured in five dimensions, viz.

- **Tangibles**: Physical facilities, equipment, and appearance of personnel.
- **Reliability**: Ability to perform the promised service dependably and accurately.
- **Responsiveness**: Willingness to help customers and providing prompt service.
- **Assurance**: Knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy**: Caring, individualized attention provided to customers.

**Customer Satisfaction** – “Customer satisfaction is the assessment of the pre-purchasing expectation from the product, with the results reached after the act of purchasing”.

**1.7 Research Objectives**

a. To study various dimensions of perceived service quality and customer relationship management in retail banking.

b. To evaluate customer’s perceptions on the dimensions of service quality and customer relationship management and assess the effect of their demographic characteristics in retail banking.

c. To determine the relationship between the perception of the customers on dimensions of service quality and customer relationship management and their choice of category of the primary bank.
d. To evaluate the level of customer satisfaction and assess the effect of demographic characteristics in retail banking.

e. To determine the relationship between the level of customer satisfaction and their choice of category of their primary bank.

f. To determine the inter-relationship between perception of dimensions of service quality, customer relationship management and the level of customer satisfaction, to propose an integrated service quality-customer relationship-satisfaction model for retail banking.

1.8 Hypotheses for the Study

![Figure 1.1: Integrated Service Quality-Customer Relationship- Satisfaction Model](image)

This study establishes the relationship between dimensions of service quality, customer relationship management and level of customer’s satisfaction on the services offered in retail banking. Each dimension of service quality experienced by the customers is measured, the perception on
the customer relationship management activities adopted by the banks is evaluated. Finally the level of customers’ satisfaction is assessed based on their experience with the bank’s products and services and a relationship is established between them.

1.9 Significance of the Study

The importance of this study stems from the fact that India has one of most advanced and sophisticated financial system in the emerging markets. The results of such a study can contribute to the improvement of the relationship between the banks and the customers. Banking institutions have realized that the customers are the focal point of any business activity. An effective management of the relationship with these customers involves management activities and tactics. The ultimate objective of any customer relationship management activity is to satisfy the customer as banks obtain revenue from them. Technological adoption is also helping the banks to maintain the relationship and improve the service quality expected by these customers. Customers are tracked and customer interaction is captured through customer relationship management technology, which is needed to gain deeper insights into customer preferences. Additionally, the increased competition in the banking space and challenges such as employee attitude, organization culture, system capability, infrastructure, and targeted expectations of the customers etc., have weakened the perceptions customers have regarding the bank’s service quality. Thus, the expected success is not gained so far, with the level of confidence customers have on the banking solutions provider.
The need for such a study in modern banking can be listed as follows:

a) Competitive scenario – Competition is raised as there are enough and more private sector banks and foreign banks invading the Indian banking space, apart from the Public sector banks. RBI after declaring the issue of new licenses in 2014 has also led the existing banks to take all possible steps to acquire, retain and develop potential customers.

b) Informed customer base – Introduction of technology in banking has led to world getting shrunk to a screen space. Capturing new customers have become more expensive. Consequently, retaining existing customers and developing them have become the focus of banking operations.

c) Depleting brand loyalty – Customers are switching to better offers and are availing better services from competing banks. Newer products and services are launched continuously in the market, forcing private and public sector banks to upgrade, themselves technologically. Similarly, the need has risen to improve customer service and identify effective communication channels, to build up good image and secure brand loyalty.

In addition to the above mentioned reasons, customer relationship management in banking being fairly new, there are several gaps identified in research during the literature review, and there is a need for empirical analysis and comprehensive study, which explains the effectiveness of customer relationship management of banks and the type of benefits banks intend to derive from these initiatives.
1.10 Scope of Study

Customer relationship management is based on certain assumptions:

a) The customers want a relationship with the banks, which offer products and services to them.

b) Customer Relationship Management is an activity that all banks engage in, or to some degree should engage in.

c) Providing a good service would enhance the level of emotional bonds that customers have, with the bank.

This study interrogates these assumptions and frames research questions. The aim of this study is to collate information gathered from the literature and works of other researchers, practitioners and consultants, with the objective of customer relationship management implemented in banks. The study focuses on the benefits of this customer relationship management, and observing whether the goals are thereby achieved or not. The work also traces the customer’s perceptions of the relationship building activities undertaken by the bank and the effectiveness of the same. An attempt is also made to match the customer requirements with the bank’s customer relationship management, which will further help in critically examining the effectiveness of customer relationship management of private and public sector banks. Eventually, a model is developed which will throw light on the service production system used in banks and co-creating better processes with the customer’s participation in the same.

To fill in the evaluation of secondary data, primary data was collected from public and private sector banks. Primary data was collected through questionnaire and personnel interview method. The scope of the study is
limited to customer relationship management of Private and public sector banks alone.

1.11 Thesis Overview

This study is divided into nine chapters

Chapter one is an Introduction to the Study.

Chapter two reviews necessary Literature and the Conceptual Framework on Customer Relationship Management.

Chapter three examines the Research Methodology used for primary research.

Chapter four investigates the Narrative on Profile and respondents’ characteristics.

Chapter five evaluates the Perceived Service Quality Dimension.

Chapter six analyses the Customer’s Perception of Customer Relationship Management Adopted in Banks.

Chapter seven details measures of Inter Relationship between Dimensions of Service Quality and Customer Relationship Management and level of Customer’s Satisfaction in Retail Banking.

Chapter eight presents discussion on the Integrated Service Quality-Customer Relationship-Satisfaction Model.

Chapter nine summarises the Discussion on Findings, and Conclusion.

The following chapter provides the Review of Literature.
References


