CHAPTER – III

CUSTOMER SATISFACTION IN BANKS THROUGH INNOVATION

3.0 INTRODUCTION

Innovation is the key to the survival and growth of any organization. In India since the opening of the economy since 1990s, most organizations have recognized the importance of innovation for their long-term performance. The process of innovation in organizations is quite complex and innovation of kind may not fit organizations of the same kind.

The manner in which organizations respond to stimuli is of great importance to the business of innovation. This automatic response depends on the attitude of the organization possess. It is extremely important to develop an attitude that is conducive to acquisition, transfer, processing and creating of new knowledge. This attitude has to be at an organizational level. The development of this attitude takes time and effort and needs to be presented by the organization as a valued capability to have. Often corporate organizations tend to be hierarchical, humorless and formal. Hence organizations that manage to bridge the efficient formal structure gap with attitudinal capability mange to be efficient and innovative at the same time.

The banking scenario in India is very competitive and the idea of the RBI to merge weak banks with strong banks and make competition only with fewer banks has been postpone. Hence, the competitive attitude among banks especially with private sector banks – that do not enjoy much of the protection of the government – is high and they innovate in several ways and lure customers. Even the so called ‘public sector banks’ have started to compete among themselves and with the private sector and even the foreign banks.
They have started to air-condition their branches, make attractive interior designs, offer flexible timings for varied customers and the like.

3.1 Indian banking scenario and innovation

Indian Banking system has played a crucial role in the socio-economic development of the country. The system is expected to continue to be sensitive to the growth and development needs of all the segments of the society. The banking industry has moved gradually from a regulated environment to a deregulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. The banking system has to adopt global best practices for customer satisfaction.

Entry of ATMs has changed the profile of front offices in bank branches. Customers no longer need to visit branches for their day to day banking transactions like cash deposits, withdrawals, cheque collection, balance enquiry etc. E-banking and Internet banking have opened new avenues in “convenience banking”. Internet banking has also led to reduction in transaction costs for banks to about a tenth of branch banking.

Technology solutions make flow of information much faster, more accurate and enable quicker analysis of data received. This lead to the decision making process happen faster and in more efficient manner. For the Banks, this also enables development of appraisal and monitoring tools which makes credit management much more effective. Technology brings reduction in transaction costs and the benefits of which is shared between banks and customers. While application of technology helps banks to reduce their operating costs in the long run, the initial investments are be sizeable. IT
spent by banking and financial services industry in USA is approximately 7% of the revenue as against around 1% by Indian Banks until very late.

3.2 Customer satisfaction

Customer satisfaction could be improved in the way even the traditional things done in an innovative method. A customer will be delighted to get served at the bank counter if his/her services are done at the earliest possible time. If conventionally a person has to stand in cue to get his/her cheque passed for payment, takes 30 minutes and if the time is reduced to 10 minutes he/she will be more delighted. This could be done only if the bank plans and executes its work in an innovative way and there by fulfilling customer needs and bring more satisfaction.

3.3 Innovation in banking

Product innovations and process re-engineering is the order of the day. The changes are motivated by the desire to meet the customer requirements and to reduce the cost and improve the efficiency of service. All banks have therefore gone for rejuvenating their costing and pricing to segregate profitable and non-profitable business.

Innovation in the banking sector needs to be focused on service delivery, rather than products, enabling banks to strengthen and sustain enduring relationships with customers. Recognizing service bottlenecks and finding ways to sort them out can be seen as highly innovative and a way of boosting customer satisfaction and longer term loyalty. Banks need to understand their customers' behaviour patterns before they can introduce effective innovations, adding that innovations must be targeted at behavioural issues, not just adding another banking channel or means of doing business. Understanding customer expectations and behaviour is the key to ensuring the business processes are focused not in the internal needs of the different areas.
of the bank, but on the customer view of what constitutes a successful process outcome.

Innovation calls for vision and conviction. Innovation helps us make the product/provide services highly suited for the targeted application. Successful innovation is not about the ideas or inventions; it’s about the people. Innovation can be defined as the key process by which products, processes and services are created, and by which businesses generate jobs and wealth. Innovation isn’t all about great ideas. Innovation is a chain that requires strength at every link to succeed. The chain starts with idea generation, but then moves to prioritizing and funding ideas, to converting those ideas to products/services and finally to diffusing those products/services and business practices across the institution/bank.

Innovation calls for certain discernment on the part of the service delivery system of banks to design the services in such a way that the customer is much delighted as to how the business process is effectively carried out and how easily with least time and distress is delivered to them.

In a situation of global economic crisis, institutions will need to shake hands with a new generation of price optimization system, customer relationship management platforms and Web-enabled tools that expand relationships and grow wallet share. Customers who have adapted to the mass customization of the Internet's long tail - and who are used to getting personal recommendations from e-retailers can't understand why an institution that has so much information about them can't offer tailored products and services. Banks that change that perception by using automated tools to fine-tune products will be well-positioned. Today banks dive deeper than ever before to connect with consumers. To this the government at the Centre (Indian central government) through the RBI fine tunes the banking system by reducing the CRR and lowering repo and reverse repo rates.
Looking for new frontiers in revenue growth, banks are discovering interesting opportunities in the way they satisfy their customers. What are the key factors that appeal to bank customers and entice them to do more business? As in most service industries, overall responsiveness and behavioral attributes account for a 10-percent margin in customer satisfaction.

When it comes to speed of service and the attitude of the people who deliver that service, banks should improve their personal touch. Furthermore, advanced technologies provide bank managers and staff valuable help because complicated legacy systems hinder the prompt delivery of banking services and the integration of customer information. Notwithstanding a positive service attitude, ailing technology systems could severely constrain the ability of bank personnel to satisfy customer demands. Technology also plays a role with other drivers of customer satisfaction, such as quality of service and product innovation. In order to be effective in luring customers, banks should invest in fundamental improvements in their people, process, and technology capabilities.

3.4 Service delivery

Most business houses believe that they do deliver superior things to their clients. But at most times they do not satisfy at least half of their expectations. Which means that business fail to understand their customers and there is no innovation in business. When customers appreciate the way a business is carried then there should be necessarily innovation taking place. Following are some aspects which will make a bank to be more innovative in its service delivery.

- **Alerts to keep customer on budget:** Informing customer when they near their minimum balance requirement and intimating every time drawls are made through SMS alert or email service.
- **Easy Deposit**: Scanning cheques from home and the same may be directly deposited into the account of the customer, provided the cheque has the MICR code and other security features. Informing the issuer of the cheque for counter-checking the amount details through email or sms alert can be another innovation for safety of banking transactions.

- **Account-to-account transfers**. Make a transfer to or from an account at another bank or credit union or consortium arrangement – already banks are doing under the core banking system. But the cost of service has to be made very less.

- **Free bill pay**. Paying bills automatically through registration with the banker. Many banks are doing such innovative services. When the system turns more competitive, easy and cheaper, many customers will opt for electronic payment.

- **Live chat support**. An interactive voice support system or a 24 hours online chatting system with the banks representative have to arranged after ensuring with the system a fraud-free chatting.

- **View every transaction**. Customers have to be given the choice to see a list of each deposit and withdrawal, along with images of cheques/drafts that have been cashed and provide a running statement online - including credit card and debit card accounts.

- **Enhanced online security**. Innovation means also ensuring more security features. Banks should customize a security phrase and image at login for even greater protection. This will ensure accidental visitor online from entering into one’s account details.
• **Creditor/debtor online clearing**: Though some organizations have resorted to the practice of direct credit of customer accounts instead of issue of cheque/DDs, but many organizations has not taken this route as there are some practical problems like, accountability for tax and online checking of credits and debits.

• **Charges/fee notification**: There is a general criticism of customers, especially of individual customers that, banks charges for deposit in other branches (from non-base branches), cheque collection, annual ‘card’ charges, charges for issue of statements and the like are charged without notifying the quantum of charges to the customer. It becomes known only when a customer updates his passbook or get a statement from the bank. Annoying the customer by these of charges could be avoided and at the same time the banks could continue charging them, by giving an sms alert or email that such and such charges are levied and at such rate.

• **New technologies for customers**: The use of technology like Smart card, mobile ATMs, coverage of post-offices under electronic payments network in far flung areas, etc. in providing financial services to the people holds a tremendous potential for the business growth.

• **Having human touch**: Although today’s banking system has become mostly online and a customer need not visit the branch at all for further transactions, yet most customer walk-back to their branches to have a human touch and see their account operations done manually atleast once in a month and once in two months. This requires a sort of human touch by the bank employees with the customer- innovations could be introduced in receiving and dealing with a customer and minimize his number of visits to the branch.
3.5 Virtual banking

- Various technological and payment systems developmental initiatives are undertaken in the Indian banking and financial sector. The system has moved to a ‘virtual’ banking system gradually in view of IT penetration in every sphere of banking.

- The Core Banking concept to a great extent emerged from the IT infrastructure and this enabled the centralization process and has since received a complete and focused attention from all the banks for its rapid implementation. The banks have also undergone a massive change in terms of improvement in the IT Communication network which has greatly facilitated not only the networking of the internal communication processes but the integration with the external payment systems gateways as well.

- The offering of electronic banking service channels like Internet Banking, Mobile Banking, real time fund transfer, ATM Applications and other forms of upcoming electronic banking channels have become important vehicles of offering banking services in a cost-efficient manner with wide geographical spread; enhancing the banks’ reputation and brand building addressing the competitive forces as well.

- Operational comfort and convenience of operations in a highly challenging environment for banks. The most important requirement relates to looking at the convenience of customers either online or offline.
3.6 Operational efficiency and innovation

It’s important to recognize that customers’ needs, priorities, and choices are different now than the past. Any organization that relies on an outdated set of beliefs about customer is more likely to accelerate their irrelevance than ensure their success. Reorienting the organizations toward operational efficiency needs the following corrective steps.

- Observe changes in the environment in real time. While aggressively avoiding the strong tendency to just see what are expected by customers.

- Orienting bank operations quickly to what those changes mean. While being careful to challenge and revise outdated assumptions and beliefs.

- Decide on a course of action. This means choosing from a range of creative alternatives with most relevant to the changing environment.

- Bank should act in a coordinated and unconstrained manner. While being ready to observe, orient, decide and act to ensure progress and enable course corrections as necessary.
3.7 **Future challenges and prospects on service delivery and innovations**

- The future opportunity lies in the form of integration of the Indian banking and financial system with the Government’s e-Governance initiatives. The electronic benefits in this regard would be passed on to the beneficiaries directly thereby preventing the leakage of the funds provided under various Government’s schemes like e-payments, etc. for the upliftment of the people. The collective efforts of the Government, banks, financial institutions and the IT firms to provide innovative solutions for an inclusive growth of the Indian economy will certainly go a long way not only for the sustained growth of the financial system but the Indian economy as a whole.
• Customers are continuing to opt for and engage in experiences that are designed to meet their needs. It’s just that their needs and priorities are changing significantly. Banks that understand and quickly adapt to these changes can not only preserve but enhance revenue in the short term. When a customer enters a bank branch, checks into a hotel, enrolls with a health insurance provider, etc… they have a set of constructs they’ve learned from past experiences and that operate within a perceptual framework that enables gist processing. Experiences designed based on this perceptual framework and set of experiential constructs become inherently easy to navigate.

• Many organizations have placed an increasing amount of attention on the quality of the experience their customers have. However, the first mistake most organizations make is focusing on what the company does to deliver a customer experience rather than taking a step-back and thinking first about how customers actually have experiences. The second biggest mistake is the way most banks listen to and react to customers’ suggestions about what to do to improve the experience.

• Emotional touch on customers, change how they feel. This can be brought through delivery of innovative solutions to people’s underlying, end-to-end problems. Finding these solutions requires getting below-the-surface of existing touch points.

• A variety of forces shape the banks from competition and globalization to the modularization of processes and technology. Clients want professional services from banks to deliver them cost-effective services.

• To succeed in this present environment, banks must continually improve their service delivery methods to increase client value and
profitability and lower costs. This involves implementing more efficient resourcing and partnering processes, creatively packaging services, and co-creating value with customers.

- To perform innovative resourcing, systems and processes must be established that encourage resource sharing between banks and identify specialized expertise, innovative technology, and low-cost labor, regardless of location.

- Service delivery innovation is the move toward packaged services. Banks can deliver services in an ad hoc manner for every client or package them in structured yet flexible ways. Banks should find themselves creating one-off solutions to address every client request.

The use of technology in India has undergone rapid transformation. The last two decades have witnessed a sea change in the nature of services offered by not only banks but also the financial sector and even the Government - all of which have had a positive impact on the customers of these organizations and the general public at large. In a competitive environment every bank needs to make a difference in attracting customers. A customer of a bank either a loan borrower or depositor or holder of any account is today most concerned how fast, easily and cost-effectively services are rendered to them. Being innovative and faster in service delivery are the areas where banks have to concentrate to lure customers. "There is very little product differentiation in the commercial banking sector mainly as a result of easy replication and the commoditization of banking products. Banks therefore have to concentrate on doing the things they have always done a lot better and faster and engineer an element of distinction hard to emulate."

3.8  Product and Process Innovation in Banking Services – Levered by ITES

The new private sector banks have the technology to access customer data housed in their central warehouses. They are beginning to use it for generating new business leads. Public sector banks are making a beeline for Core Banking Solutions (CBS) – the technology that enables them to integrate all customer channels seamlessly. Branches are becoming delivery channels and employees salesmen. Banks are going beyond conventional banking and offering a lot more than vanilla deposits and loans. Following are the innovative services offered by the industry in the recent past:

3.8.1. Electronic Payment Services – E Cheques

Nowadays we are hearing about e-governance, e-mail, e-commerce, e-tail etc. In the same manner, a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque and E-cheque instruments. Electronic payments can also be made in the form of Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS) and through Real Time Gross Settlement (RTGS). Many banks in India have begun to offer certain banking services through Internet that facilitate transfer of funds electronically.

3.8.2. Real Time Gross Settlement (RTGS)

Real Time Gross Settlement (RTGS) system, introduced in India since March 2004, is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their
financial operations. As the name suggests, funds transfer between banks takes place on a ‘Real Time’ basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary’s bank has the responsibility to credit the beneficiary’s account within two hours.

3.8.3. Electronic Funds Transfer (EFT)

Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person / company etc. can approach his bank and make cash payment or give instructions / authorization to transfer funds directly from his own account to the bank account of the receiver / beneficiary. Complete details such as the receiver’s name, bank account number, account type (savings or current account), bank name, city, branch name etc should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries’ account correctly and faster. RBI is the service provider for EFT.

3.8.4. Electronic Clearing Service (ECS)

Electronic Clearing Service (ECS) is a retail payment system that can be used to make bulk payments / receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals.

3.8.5. Automatic Teller Machine (ATM)

Automatic Teller Machine (ATM) is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a device that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In
addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.

3.8.6. Credit / Debit cards

Credit / Debit cards are being widely used in the country as they provide a convenient form of making payments for goods and services without the use of cheques and cash. Banks issue credit cards to their customers. The merchant establishment who accepts credit / debit card payments will claim the amount from the customer’s bank through his own bank. For a customer the question may arise; how is a Debit Card different from Credit Card? Debit Card is a direct account access card. (Amount transacted gets debited immediately). The amount permitted to be transacted in debit card will be to the extent of the amount standing to the credit of the card user’s account. On the other hand, a credit card involves provision of credit to the card user, which is paid by the card user on receipt of the bill either in full or partially in installments.

3.8.7. Point of Sale Terminal

Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer’s account is debited and the retailer’s account is credited by the computer for the amount of purchase.

3.8.8. Tele Banking

Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used
for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

3.8.9. Corporate Banking Terminal

Corporate Banking Terminal enables the large corporate customers can log into the banks database and have access to their accounts/transactions from their business houses.

3.8.10. Electronic Data Interchange

Electronic Data Interchange is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form. EDI has resulted in huge savings in costs of exchanging trading information.

3.8.11. Implications

The banks were quickly responded to the changes in the industry; especially the new generation banks. The continuance of the trend has re-defined and re-engineered the banking operations as whole with more customization through leveraging technology. As technology makes banking convenient, customers can access banking services and do banking transactions any time and from any ware. The importance of physical branches is going down. Thus the changes have the following implications:

- Anywhere Anytime Anyplace Banking
- Timeless and Placeless Banking
- Banking at Convenience
- Dismantling of Physical Structure
Goodbye to Traditional Instruments and Invitation to New Instruments
Disappearance of Conventional Risk and Arrival of New Risks
Leading to Currency-less Monetary system

3.9 Issues and Challenges for innovation

For the last ten years, technology has been the driving force in the banking industry. As foreign and private banks poured huge sums of money to counter the branch advantage of public sector banks, they discovered that technology gives them a large competitive advantage. Technology is helping the banks to reduce transaction cost and improve efficiency. ITES becomes Unique Selling Proposition (USP) of the many players in the industry as it facilitates the innovations in all functional management activities – whether accounting and finance, production and designing, marketing and customer management, research and development activities, and so on. In the last decade banks have invested heavily in the technology such as e-commerce, data warehousing and data mining, customer relationship management solution software, knowledge management systems etc.

Some are investing in it to drive the business growth, while others are having no option but to invest, to stay in business. The choice of right channel, justification of IT investment on ROI, e-governance, customer relationship management, security concerns, technological obsolescence, mergers and acquisitions, penetration of IT in rural areas, and outsourcing of IT operations are the major challenges and issues in the use of IT in banking operations. The main challenge, however, remains to motivate the customers to increasingly make use of IT while transacting with banks. For small banks, heavy investment requirement is the compressing need in addition to their capital requirements. The coming years will see even more investment in banking technology, but reaping ROI will call for more strategic thinking.
Everyone today is convinced that the technology is going to hold the key to future of banking. The achievements in the banking today would not have make possible without IT revolution. Therefore, the key point is while changing to the current environment the banks has to understand properly the trigger for change and accordingly find out the suitable departure point for the change.

India Vision 2020 sees a nation of 1.3 billion people who are better educated, healthier, and more prosperous. Urban India would encompass 40% of the population as against 28 % now. With more urban conglomerations coming up, only 40% of population would be engaged in agricultural sector as against nearly two thirds of people depending on this sector for livelihood. Share of agriculture in the GDP will come down to 6% (down from 28%). Services sector would assume greater prominence in our economy. The shift in demographic profile and composition of GDP are significant for strategy planners in the banking sector.²