CHAPTER I

INTRODUCTION OF COMMERCIAL BANKING AND CUSTOMER RELATIONSHIP MANAGEMENT (CRM) IN INDIA
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1.1. INTRODUCTION TO COMMERCIAL BANKING:

Undertaking so many activities by commercial banks in various countries has changed the face of banking from “Omni present banking” to “Omni potent banking” having multifarious functions and selling/marketing their new products and many modern banking services. In many developed countries, besides traditional activities like accepting deposits and lending, the banks are undertaking the following activities:

1. Securitizing the debts.
2. Holding equity of non-equity firms.
3. Financing venture capital funds.
4. Extending loans and advances on a longer term.
5. Underwriting new debt and equity issues.
8. Providing corporate advisory services including advice on mergers acquisitions.

Money has become the order of the day.

1.2. HISTORY OF BANKS IN INDIA:

Since 1991, the Indian banking system reforms in the financial and banking sector with the introduction of the new phase.
To make it more clear write-up, Phase I, Phase II and Phase III as a prefix landscape:

**Phase I:**

Foundation of General Bank of India was in 1786.

**Phase II:**

In 1955, especially in rural and semi-urban areas a large-scale comprehensive banking facilities were nationalized Imperial Bank of India. Banking institutions in the country to regulate the steps taken by the Government are:

- 1955: SBI was Nationalized.
- 1959: SBI subsidiaries was Nationalized.
- 1961: Insurance cover extended to deposits.
- 1969: 14 Nationalized Banks was added.
- 1971: Credit Guarantee Corporation established.
- 1975: Regional Rural Banks was constructed.
Phase III:

In 1991, the chairman M. Narasimham and a committee under him worked for the freedom of banking services which was established in his name. Countries with foreign banks and their ATM stations flooded.

1.3. FINANCIAL SERVICES:

Financial services are classified in the following groups:

1.3.1 Banking and Financial Services: Banking and financial services can also be further classified as:

a) Fee-based financial services:

- Financial management.

- Advisory services.

- Custody services.

- Credit card services.

- LC for trade financiers.

b) Securities-related financial services:

- Securities lending services.

- Mutual fund services.

- Securities clearance.
- Services on Settlement.

- Services on Securities trading.

- Private placement.

- Under-writing services.

1.3.2 **Insurance and Insurance Related Services:** Insurance and insurance related financial services include the following:

   a) Insurance brokerage.

   b) Specialty insurance products.

   c) Underwriting a financial risk.

   d) Reinsurance.

1.3.3. **Fund-based Financial Services:** Financial services based on fund or money are as follows:

   a) Equipments leasing.

   b) Hire purchase.

   c) Bill discounting.

   d) Venture capital.

   e) Housing finance.
f) Factoring.

1.3.4. **Fee-based Financial Services:** Financial services based on fees are as follows:

a) Issue management.

b) Portfolio management.

c) Corporate counseling.

d) Loan-based syndication.

e) Arrangement of foreign collaboration.

f) Mergers and acquisitions.

g) Capital restructuring.

1.3.5. **Capital Market Services:**

a) Issue Management.

b) Merchant Banking.
1.4 NEED FOR BANKING:

1. The global retail financial services market is growing very fast and chains of foreign banks are attacking traditional banks by offering new products.

2. Information Technology development has paved the way for excellent customer services by way of providing electronic distribution channels. Liberalization and de-regulation of financial market have led to fragmentation of traditional branch services.

3. Other International and private banks have started outsourcing various products in this sector. For e.g.: Credit cards, insurance products, etc.

4. Customers have also become very demanding now. They want various financial services including expert advice on investment and portfolio management for longer hours. [24hrs/7, 365days] and sometime in their houses also.

5. International banks and new sector banks are integrating all its customer information and making the information available across all different delivery channels, i.e. their branches.

1.5 ADVANTAGES OF BANKING:

1. Under the banking system the bank has the benefit of economies of scale and scope.

2. Because of varied shift in business process, the demand for service also differs at several points of time.
3. Under the banking systems, the customer is also benefited as he gets one stop banking facilities.

4. To exploit the activity, banks can use its instrument of one activity to the other.

5. Under the banking system, the risk of banking is reasonably hedged when bank is performing the diversified activities.

1.6 INTRODUCTION OF COMMERCIAL BANKING:
Commercial banks are the premier financial institution as they play a pivotal role in the country’s economy. Commercial banks two major functions are accepting deposits and employing the funds thus mobilized in lending or investing in securities. Bank’s being financial institutions; planning and management of funds are essential elements bank management.

1.7. FUNCTIONS OF COMMERCIAL BANKS:
   1. Under the companies’ act of 1956, Commercial banks are joint-stock companies.
   2. Commercial bank structure is branch banking structure
   3. Only some of the sections of banking regulation act of 1949 were applicable to it.

1.8. TECHNOLOGICAL REVOLUTION IN COMMERCIAL BANKS:
Banks are invested major amount in last five years for transferring operational technology towards automation and electronic network system. This conversion is manly in the field of deposits, payments transactions, and making the credit available. Like; ATM machines; for 24 hours access to customer’s accounts; point of sale (POS) terminals to
replace paper based transactions in various stores and shopping centers around the globe. Due to this change banking is becoming more towards the fixed cost based Industries, strong capita, and less towards strong labour based, uncertain cost industry.
1.9. ENTRY OF COMMERCIAL BANKS INTO SECURITIES BUSINESS:

Commercial banks have diversified their activities in order to minimize their profits and at the same time attend the requirement of their customers because of liberalization and deregulations. Some progress has been made in this direction as the banking is a needed goal and by allowing banks to bring variety into investment and protracted financing. Initially, commercial banks set up merchant banking divisions, which letter become separate merchant banking subsidiaries. A few merchant banks have been set up by private financial services companies in association with foreign banking and money market institutions.

The following financial services are being offered by the commercial banks through adopting the Financial Conglomerate route in India.

1. The commercial banks are active in providing project finance wholesale credit, retail credit, housing finance and mortgage credit. Credit derivative products such as factoring, leasing and hire purchase and number of non-found based products like guarantees and letters of credit are also being provided.

2. Credit card business is the recent innovation in the Indian Commercial Banking.

3. Most of the commercial banks are actively participating in the money and capital markets.

4. Commercial banks are also providing advisory services through merchant banking and they have also set up mutual funds, Insurance through their subsidiaries.
1.10. INTRODUCTION TO CUSTOMER RELATIONSHIP MANAGEMENT (CRM):

Customer’s expectations are now not only limited to get best products and services, they also need a face-to-face business in which they want to receive exactly what they demand and in a quick time. Every business unit emphasizes on spurting a long term relationship with customers to nurture its stability in today’s blooming market.

In this way, CRM is intended to help banks understand, as well as anticipate, the needs of present and probable customers. The study is a detail study of process Involved in Planning of CRM and need for CRM. The purpose of CRM in business is basically to “create and keep a customer” and also to “view the entire business process as consisting of tightly integrated effort to discover, create, and satisfy customer needs.” Managing and maintaining customer is one of the main issues faced by the banks. The demands and expectation of the customers grow at a much faster rate than the banks can equip themselves to deal with them. As Kotler & Fox (1995) states, “the best organization in the world will be ineffective if the focus on ‘customer’ is lost”.

Implementation of CRM strategies and banks can target many goals like:

1) Enhancing sales costs
2) Enhancing costs of targeted new customers
3) Enhanced profitability and customer satisfaction
4) Reducing the need of acquiring new customers
5) Calculate profitability of customers
6) Higher customer retention rate

So the number of banks has increased and customers have more options to select the bank. This situation increases the competition and aggressive marketing strategy. This situation has contributed more in the need of CRM in this sector.
1.11. THE EMERGENCE OF CRM:

In early 1970s CRM was originated. The primary reason for the emergence of CRM is the change in the marketing environment. Organization needs to create customized offers for customers and ensure relationship by providing better customer service and management of customer expectations.

The origin of CRM as a strategic approach is a result of some of the following important perspectives:

1) The confidences of the customers are core requirement.

2) More use of new technologies with the help of CRM software to maintain important data.

3) The approach must be towards relationship not only for transaction.

4) More focus on customer values and time.

5) Customer satisfaction is more important than self satisfaction and profit.

6) Retain existing customers are more focused and trying to increase business from them instead of targeting new customers.

7) Information about current market trend. Products selling based on current economic conditions.

8) Today, market has well refined and defined CRM systems for the process of improvement.
1.12. **CRM CONCEPT:**

Customer Relationship Management is an upright concept or strategy to solidify relations with customers and at the same time reducing cost and enhancing productivity and profitability in business.

1.12.1. **CRM Philosophy:**

CRM is an approach that recognizes that customers are the core of the business and that the organization's success depends on effectively managing relationships with them, *(Brown).*

CRM’s purpose is to build relationship strategies that refine relationships and thus increase their value, *(Storbacka and Lehtinen).*

1.12.2. **Operational CRM:**

Operational CRM about understands the nature of the exchange between customer and supplier and managing it appropriately, *(Peel).*

Operational CRM is a comprehensive approach that provides seamless coordination between all customer-facing functions, *(Goldenberg).*

1.12.3. **Definitions of CRM:**

Following is a sample of the general definitions offered in the literature.

“CRM is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high-quality customer data and enabled by information technology.” *(Francis Buttle (2004).*

“CRM is a philosophy and a business strategy, supported by a system and a technology, designed to improve human interactions in a business environment.” Greenberg (2004).

Berry proposed the relationship management as “attracting, maintaining and – in multiservice organizations – enhancing customer relationships”.

Galbreath puts forward a more detailed definition, “Activities an enterprise performs to identify, select, acquire, develop, and retain increasingly loyal and profitable customers.

CRM integrates sales, marketing and service functions through business process automation, technology solutions and information resources to maximize each customer contact. CRM facilitates relationships among enterprises, their customers, business suppliers and employees”.

Reed proposes what he describes as “stable” definition of CRM; “Identifying and interacting with customers for more profitable, long term investment with the company”.

In recent competitive world, achieving total customer delighting the customer is a key element in service delivery and responsiveness to the customer has become a source of competitive advantage in many industry and service sectors. Customer Relationship Management is being increasingly used to search, enchain, and retain most valuable customers that help businesses to sustain profitable growth. Successful banks are achieving long-term performance in customer relationship management by gaining deep insights about their customer which helps them to design product/service offerings that match or exceed the customer expectation which in turn help in building customer trust and gain loyalty.
1.13. NEED OF CRM IN THE BANKING INDUSTRY

CRM can be helpful in customer identification, cross selling of products, customer acquisitions or retention etc. Operational CRM, which provides required information and analytical CRM, which traces activities and makes information more sensible are two things of CRM. CRM cells, portfolio of products, customer metric and latest technology are some of the requirements for efficiently implementing the CRM.

Past decades, banking industry has changed tremendously, because of this consolidating and improvement in banking services became inevitable. Banks have realized the significance of customer service not only for business expansion but also for their very survival. They have reacted so fast that the customer need have understood and managing them is improved. CRM helps categorize and segment customers and align products that best suit them. Past records of customer service and good corporate governance standards will be highly critical while deciding the prospects of the aspirants this time. Thus the aspirant companies which are already focusing on CRM have a higher degree to get the license.

Retail banking characterized such as:

1. Multiple availability products
2. Multiple channels of distribution
3. Multiple customer groups

Customer expectations from bank as follows:

1. Reduced cost of service
2. “Anytime Anywhere” Service facility
3. Customer to customer base Service
FIGURE 1.1: KEY ELEMENTS OF CRM:

SOURCE: RESEARCHER

1.14. FEATURES OF CRM

1. Customers Needs
2. Customers Response
3. Customer Satisfaction
4. Customer Loyalty
5. Customer Retention
6. Customer Complaints
7. Customer Service
1.15. IMPORTANCE OF CRM

1. Minimize customer recruitment costs
2. Creation of more loyal customers
3. Expanding customer base
4. Lack of advertising and sales promotion expenses
5. Clients benefit selectivity approach
6. Increase the number of profitable customers
7. Easy business expansion possibilities
8. Increased customer partnerships etc

1.16. EVOLUTION OF CRM IN BANKING SECTOR

1. Proper adoption of CRM strategies
2. Good CRM bonds customers in longer term, which results in increased revenue.
3. Due to falling of interest rates, customer base needed to improve.
4. Ability to understand the requirement of the customer
5. Integrate customers with bank's strategy and technology.

1.17. NEEDS OF A BANK

1. What to sell
2. Whom to sell
3. When to sell
4. How to sell
5. How to be different to increase profitability
6. Increasing and offerings value added service
7. Building long-term relationships
8. More customized products
9. Increased accessibility.

1.18. WHO WILL GET THE BENEFIT?

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

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

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

a) For Employees
   • Staffs empowerment with information to meet customer expectations.
   • A staff gets more time for customer service.
   • Staffs have more satisfaction.

b) For Banks
   • Information empowerment of Managers for better decisions.
   • Maximum utilization of resources.
   • Loyalty and satisfaction of Customer
• Acquisition of customer and cross-selling.

1.19. COMMENCEMENT OF INNOVATIVE SERVICES IN BANKS:

1. The commencement of ATMs.

2. Biometrical ATMs.


5. Online Services

6. Plastic Money

7. SMS and e-Mail service alarm

8. Online transfer of Cash

9. Introduction 2 in 1 Accounts.

10. Customer based loan service schemes

Banks also introduces the additional technologies, which are as follows:

1. Sales Force Automation

2. Electronic Point of Sale (EPOS)

3. Systems Integration

4. Customer Service Helpdesk

5. Call Centers
1.20. CRM CAN HELP BANKS AS FOLLOWING:

1. Driving Management
2. Customer Information Consolidation
3. Marketing Encyclopedia
4. 360-degree view of company
5. Personalized sales home page
6. Lead and Opportunity Management
7. Activity Management
8. Contact Center
9. Operational Inefficiency Removal
10. Enhanced productivity
11. CRM with Business Intelligence
1.21. CRM STRATEGY

In any organization it is a wide ranging and definition of the CRM scope made to achieve organizational objectives. "The strategy is needed to keep businesses customer centric and to help the company constantly evolve internal processes and technology to acquire and retain customers.” CRM is fundamental a strategically aligned with the superseding corporate strategy. It tries to attempts to optimize a firm’s profitability, revenue and customer satisfaction by focusing on a customer centric process.

FIGURE 1.2: CRM STRATEGY
1.22. CRM STRATEGY IN BANKS

The bank has to decide on the strategy or pathway to go ahead with CRM. To help clarifying CRM function, strategic framework was framed, to fit it in the organization and utilized its use as a management strategy. It is comprised of the following inter-related cross-functional processes. They are following process:

1. Development of Strategies
2. Creation of Value
3. Integration of Multi-channel
4. Information related management
5. Assessment of Performance

The following are the different types of business imperatives for a successful CRM strategy:

1. Creating a customer-focused organization and infrastructure.
3. Maximizing profitability
4. Methods to attract and retain the best customers.
5. Offering contractual safeguards like guarantees, warrantees and building the customer confidence.

1.23. CRM MODELS AND CONCEPTS

PARVATIYAR AND SHETH:

Developed following four sub-processes CRM:

1. Formation
2. Governance
3. Evaluation of Performance
4. Enhancement.

NAIRN:

Nairn’s technology timeline above shows the successive development of technologies since the mid-1980s that have forged a chain, each link facilitating the process of collecting, analyzing and acting on customer information to identify and communicate with the most profitable customers.

PLAKOYIANNAKI AND TZOKAS:

Plakoyiannaki and Tzokas presented in the following steps:

1. Creating a corporate
2. Customer value a key component.
3. Collection and transformation of customer data.
4. Knowledge creation and dissemination.
5. Development of market segments
6. Defining and developing customer portfolio.
7. Campaigning and channel management.

VERHOEF AND LANGERAK:

According to Verhoef and Langerak, there are three factors management of marketing:

1. Orientation of Customer
2. Customer based marketing Relationship
3. Database related marketing.
BUTTLE:
Buttle, stated that CRM is based on three different perspectives:
1. Strategic
2. Operational
3. Analytical

CROTEAU AND LI:
Croteau and Li present five Critical Success Factors of CRM based on technological initiatives as follows:
1. Operational and strategic importance
2. Support of Top management
3. Organizational alertness
4. Capabilities of Knowledge management
5. CRM impact

ANDERSON AND NARUS:
The four steps put forward by Anderson and Narus is explained in more detail below:
1. Estimating Share
2. Selecting and Pursuing Share
3. Focused share building

PAYNE AND FROW
According to Payne and Frow 5 main cross function processes as:
1. A process of development strategy
2. A process of creating value
3. A process of integration multiple channel.
5. A process performance evaluations.

1.24. CRM SOFTWARES AVAILABLE IN MARKET

1. PeopleSoft 8.
2. Oracle
3. Telemation
4. mySAP
5. Siebel
6. Microsoft

1.25. ELEMENTS OF E-CRM

1.25.1. Customer contacts: e-CRM, traditional methods are also used for contact, in spite of Internet, email, mobile and technology like PDA.

1.25.2. System interface: e-CRM is the front end process, which supported through the back office with the help of software based systems (ERP).

1.25.3. System overhead: e-CRM, as client uses the browser, therefore, these systems does not have requirements.

1.25.4. Customization and personalization of information: e-CRM, Personalized individuals views, considering purchase history and general preferences individuals customers have ability to customize the opinion.

1.25.5. System focus: e-CRM, System designed on the basis of customer requirement.
1.25.6. **System maintenance and modification:** e-CRM, reduction in time duration and cost. Modification and maintenance can take at one server location.

1.26. **FEATURES OF e-CRM**

1. Integrated Real-Time Information
2. Prioritization and Personalization
3. Buying Groups and Organization
4. Activity Management
5. Communications with Customer
6. Customer Service and Self-Service
7. New Customer Acquisition and Prospecting
8. Attributes
9. Pricing level, bulk Pricing, and Customer based Specific Pricing
1.27. BENEFITS OF e-CRM

1. Capturing data and re-using based on past experiences
2. Confirming Knowledge Management
3. Targeting on customers around the organization
4. Attaching customers to employees
5. Low cost service.
6. Helping for Capitalizing most profitable customers
7. Ability to increase marketing capabilities.

FIGURE 1.3: e-CRM STRATEGY

1.28. WHY DO BANKS NEED e-CRM?

A major changes is taking place in the present market, the business must roam around the customer. As a result of this change:

i. Customer wants to interact with banks when and where it is convenient for them.

ii. Customers should be in center of business planning.
iii. Personalized information is at lower cost.

iv. Critical ingredient to any product or service.

1.29. Development of the subject

In the current scenario of highly competitive banking world, improving customer service is the most important tool for their better growth. As service industry, customer service and customer satisfaction are their prime work. We knew that providing effective and efficient service is essential not only for attracting new customers but also for retaining existing customers. Present banking sector has a lot of initiatives with the help new technologies, which is providing a better customer services.