CHAPTER 1

INTRODUCTION

Thanks to Government of India’s policies pertaining to economic liberalization, privatization and globalization together with the financial restructuring efforts; there appears to be a shift in the structural as well as operational mechanism of banking in India.

Over a long period of time, bankers in India played the role of financial intermediaries, accepting deposits from investors and extending loans to the needy. The difference between deposit interest rates and loan interest rates was the income to bankers.

The phenomenal growth of the non-bank finance sector, spread of equity culture, mutual funds and many more financial products in the financial market necessitated Indian bankers to perform additional roles than mere financial intermediaries. Bankers became financial facilitators too.

Further, in tune with the national objective of the socio economic policies of Government of India major commercial banks were nationalized, leading to the expansion of the banking activity to every nook and corner of the country. Banking hitherto confined to select sectors was made available to economically weaker sections of the society, agriculturalists, small-scale industries, small traders and so on. Thus banking reached out to the masses. However bankers were operating in the sellers market only.
Frequently, at the instance of Government of India in furtherance of national priorities bankers are forced to come out with corresponding policy measures, innovative service mix, newer service delivery systems and all these things have cumulatively influenced the very way of banking operations in this country.

Once deregulation was permitted, new entrance in the financial industry such as, non-bank financial institutions, foreign banks and private banks have started playing much forcefully to take out a significant share in the financial market. They have the advantage of professional bank personnel embedded with technological advancement and the situation posed greater challenges to the banks that were hitherto concentrating on traditional banking only.

In the meanwhile in view of the upliftment in the standard of living of the bank customers their expectations have also increased phenomenally. This makes banking industry highly competitive and compelled the bankers to look at the financial market in a totally different perspective; that is, from the bank customers perspective.

Customers became the focal point of bankers for doing banking business, in such a way that, bankers have to totally involve themselves in anticipating, identifying, reciprocating and satisfying bank customer needs in a mutually rewarding manner. This has thrown up broader dimension to existing banking business such as retail banking.

As the retail credit market is crowded with competing players such as non bank financial companies, financial agencies, foreign banks and private banks; bankers have to necessarily formulate and execute aggressive marketing strategies to attract, retain and expand the customer base.

The emergence of class banking, universal banking, personal banking, online banking, tele banking, electronic fund transfer, home banking, anywhere
banking, etc., and brand new retail products; such as debit card, car loan, housing loan, educational loan, consumer loan etc. are examples of how banking in India has become customer oriented.

The Indian bank customers are presently left with unlimited choices of retail products and with ever increasing expectations. In this context the bankers to remain competitive have to meet the expectations of the customers much better than the competing players in the market. This scenario has lead the bankers to focus attention on customer relationship management; to have the customers as life long profitable partners; which in turn lead the bankers to perform better and sustain better performance for an unending period. The customer relationship management in retail banking throws open a number of issues and these issues have induced the researcher to take up this study.

1.1 STATEMENT OF THE PROBLEM

Banking Industry in India is forced to face intensified competition, thanks to the presence of several forces. Such forces include the Govt. of India’s approach towards liberalization, privatization and globalization, entry of foreign banks, private banks, non bank financial institutions and an all round economic growth within the country and so on.

The intensity of competition in banking industry is bound to grow in the years to come which in turn would make banking operations more challenging and more complex.

A paradigm shift is noticeable in the banking industry of India. Such a shift reflects in terms of number of banks, volume of business in banking as well as nature of business operations. Bankers in general have moved a long way from mere financial intermediaries to a full-fledged financial institution.
The service/product mix offered by the banks, the service delivery system and the related aspects have drastically changed, thanks to relentless improvement in the technology and also in view of the phenomenal increase in the expectations of bank customers.

In the context of competing bankers who are performing with almost undifferentiated services, for almost equal prices; the customers of one bank are left with multiple options to move over to some other banks in search of better services, with little or no barriers of switch over from one bank to another.

Bankers have to necessarily perform their banking operations with the likelihood risk of the customers making a bank switch over at any given point of time, that might result in decline in revenue or loss of revenue on the whole.

To prevent or minimize this possibility of customer defection; bankers have to come out with customer centric strategic decisions. Obviously, the conditions draw the attention in evolving meaningful customer relationship management which would provide a platform for not only retaining existing customers but, also to expand the customer base by attracting additional customers.

Bankers are competing among themselves to attract additional customers from other banks and also to increase the volume of business from the existing customers. Such a situation is well recognized by all the banks, and a proactive as well as reactive measures within the umbrella of customer relationship management is being initiated. Thus, customer relationship management comes to stay in the banking industry in general and retail banking industry in particular.

Retail banking in India is emerging as the fulcrum of banking activity with a promise of great growth potential. All the banks operating in India are competing among themselves to get the maximum advantage of retail banking.
Customer Relationship Management in retail banking gives rise to a number of issues that includes influences contributing towards relationship building, sustaining the relationship and influences leading to dissolution of relationship. The perception of such influences differs between the bank customers and bank officials. A meaningful understanding of those influences would obviously contribute towards arriving at profitable relationship building strategies and misunderstanding of the influences leading to inappropriate relationship strategies. And, this appears to be the key issue in customer relationship building in retail banking and the same is identified as the problem for the study with the following objectives.

1.2 OBJECTIVES

The study has the following broad objectives:

1. To study the practices of Customer Relationship Management in the retail banks in India.
2. To analyze the Customer Behavior with respect to retail banks in India.

The Specific Objectives are:

1. To evolve a relationship framework (Customer Relationship Management model) as applicable to Retail Banks.
2. To analyze the Bankers as well as Customers perception of Customer Relationship Management practices in banks and to identify the key variables that contribute to relationship building in the order of their relative significance.
3. To analyze the behavioral pattern of customers with respect to retail banking and to identify the variables influencing the behavioral pattern.

4. To analyze the customer satisfaction levels and also to expose the gaps if any between actual and expected levels of service.

5. To offer suggestions to the policy makers for improving the customer relationship management practices.

To accomplish the above objectives, the following hypotheses are postulated and tested.

H1: There exists no significant difference between the sex of the respondents on perception of service quality.

H2: There exists no significant difference between the age of the respondents on their perception of service quality.

H3: There exists no significant difference between the educational qualification of the respondents on their perception of service.

H4: There exists no significant difference between occupational status of the respondents on their perception of service.

H5: There exists no significant difference between the monthly family income of the respondents on their perception of service.

H6: There exists no significant difference between the sex of the respondents on their perception of Bank-customer relationship.
H7: There exists no significant difference between the age of the respondents on their perception of Bank-customer relationship.

H8: There exists no significant difference between the educational qualification of the respondents on their perception of Bank-customer relationship.

H9: There exists no significant difference between the employment status of the respondents on their perception of Bank-customer relationship.

H10: There exists no significant difference between the family income of the respondents on their perception of Bank-customer relationship.

H11: There exists no significant difference between the sex of the respondents on their level of satisfaction.

H12: There exists no significant difference between the age of the respondents on their level of satisfaction.

H13: There exists no significant difference between the educational qualification of the respondents on their level of satisfaction.

H14: There exists no significant difference between the employment background of the respondents on their level of satisfaction.

H15: There exists no significant difference between the monthly family income of the respondents on their level of satisfaction.

H16: There exists no significant difference between the sex of the respondents on their attitude on banking transactions.

H17: There exists no significant difference between the age group of the respondents on their attitude on banking transaction.
H18: There exists no significant difference between the educational qualification of the respondents on their attitude on banking transactions.

H19: There exists no significant difference between the employment background of the respondents on their attitude on banking transactions.

H20: There exists no significant difference between the income levels of the respondents on their attitude on banking transactions.

H21: There is no significant difference between the sex of the respondents on their intention to switch over to other banks.

H22: There is no significant difference between the age of the respondents on their intention to switch over to other bank.

H23: There is no significant difference between the educational qualification of the respondents on their intention to switch over to other banks.

H24: There is no significant difference between the occupational status of the respondents on their intention to switch over to other banks.

H25: There is no significant difference between the monthly family income of the respondents on their intention to switch over to other banks.

1.3 SCOPE

This study is primarily aimed at retaining customers by building relationships and increasing the contribution of existing customers to the Bank’s revenue. On this account the study brings to light the various variables contributing to relationship building.

Also, the study would be beneficial in understanding what the customers expect from Banks.
1.4 LIMITATIONS

The findings of the study are purely an outcome of the responses given by the sample respondents (both customers of banks and officials of banks) of the six banks considered for the study.

The study is made primarily based on the responses from the two foreign banks, two nationalized banks, and two private banks operating in India.

The customers' responses are subject to personal bias.

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

1.5 HOW USEFUL IS THE STUDY

It gives a clear picture about the practice of Customer Relationship Management in retail banking. In doing so, the research work provides ample information on various strategies that are very essential for Customer Relationship Management in banks. It also throws light on the various benefits banks get from the proper implementation of customer relationship management and the limitations inherent in the same. Bankers by following the relationship practices can develop a base of loyal customers and by up selling and cross selling can reduce their servicing cost and thereby earn more profits. In a nutshell—the study would benefit, all concerned with banking industry in general and retail banking in particular; towards designing and executing appropriate strategic measures to attract, retain and expand customer base. This in turn would contribute towards profitability of the banking operations.
1.6 SUMMARY

Customer relationship management is a part and parcel of the bank executive's job. For the job to be performed in the best possible way the bank executives have to understand the perception of the customers, their satisfaction levels and their expectations and the gaps which exist in them. The following chapter provides an insight into the research design and methodology adopted for the study.