Volume : 1 | Issue : 1 | October 2011 ISSN - 2249-555X

Research Paper Subject

CRM in Banking Sector: Need of Hour

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ABSTRACT

The service industries are mostly customer driven and their survival in competitive environment largely depends on quality of the service provided by them. Businesses seeking to improve profitability are, thus, advised to monitor and make improvements to their service quality on an ongoing basis. Customer service expectations are rising. Customers want their questions answered quickly, correctly, and consistently, whether they contact a call center, consult a brochure, or visit a website. Customers also want a choice in how they communicate with an organization by phone, through the web, or in person. After passage of time & emergence of electronic business, the concept of customer relationship management has also changed to Electronic Customer Relationship Management i.e. e-CRM. In this article attempt is made to discuss concept of CRM, issues in CRM, concept of e-CRM, need of e-CRM, e-CRM in Banks, advantages of e-CRM to banks and customers. Case studies of leading banks have been undertaken to see how e-CRM has helped them gain competitive advantage and gaining more customers and further retaining them too. The paper is original work of ours and we hope it will contribute in further research on the topic.

Key word : CRM, Banking, e-CRM

Introduction

The service industries are mostly customer driven and their survival in competitive environment largely depends on quality of the service provided by them. Businesses seeking to improve profitability are, thus, advised to monitor and make improvements to their service quality on an ongoing basis. Technology plays a vital role in improving the quality of services provided by the business units.

One of the technologies which really brought information revolution in the society is Internet Technology and is rightly regarded as the third wave of revolution after agricultural and industrial revolution. Advent and adoption of internet by the industries has removed the constraint of time, distance and communication making globe truly a small village. Financial sector being no exception, numerous factors such as competitive cost, customer service, increase in education and income level of customers, etc. influence banks to evaluate their technology and assess their electronic commerce and electronic banking strategies.

Customer satisfaction, customer retention and new customer acquisition are the key factors in e-banking system. Customer service expectations are rising. Customers want their questions answered quickly, correctly, and consistently, whether they contact a call center, consult a brochure, or visit a website. Customers also want a choice in how they communicate with an organization by phone, through the web, or in person. After passage of time & emergence of electronic business, the concept of customer relationship management has also changed to Electronic Customer Relationship Management i.e. e-CRM.

Concept of CRM

CRM stands for Customer Relationship Management. It is a process or methodology used to learn more about customers' needs and behaviors in order to develop stronger relationships with them. Customer Relationship Management can be defined as the strategies, processes, people and technologies used by companies to successfully attract and retain customers for maximum corporate growth and profit. CRM initiatives are designed with the goal of meeting customer expectations and needs in order to achieve maximum customer lifetime value and return to the enterprise. The use of customer relationship management products, CRM software and CRM solutions will enhance the effective implementation of CRM in an organization.

CRM includes:

1. Project management
2. Customer help desk
3. Partner management
4. Marketing campaign management
5. Order management system
6. Sales force automation

CRM helps businesses use technology and human resources to gain insight into the behavior of customers and the value of those customers. It consists of software, services, and a new way of thinking about how to identify the right customers, acquire more of the right customers faster, and retain the right customers longer. CRM typically involves centralizing all customer data and automating much of the tedious work in managing sales, marketing, and customer service so that professionals can spend more time helping their customers becomes more successful and less time on administrative tasks.

CRM is primarily a strategic business and process issue rather than a technical issue. CRM tries to achieve a 'single integrated view of customers' and a 'customer centric approach' [Roberts-Witt, 2000].

CRM consists of three components (Exhibit 1):

- Customer,
- Relationship, and
- Management.

Exhibit 1. Components of CRM

1. Customer: The customer is the only source of the company's present profit and future growth. However, a good customer, who provides more profit with less resource, is always scarce because customers are knowledgeable and the competition is tough. Sometimes it is difficult to distinguish who is the real customer because the buying decision is frequently a collaborative activity among participants of the decision-making process. Information technologies can provide the abilities to distinguish and manage customers. CRM can be thought of as a marketing approach that is based on customer information.
2. Relationship: The relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long-term, continuous or discrete, and repeating or one-time. Relationship can be attitudinal or behavioral. Even though customers have a positive attitude towards the company and its products, their buying behavior is highly situational. CRM involves managing this relationship so it is profitable and mutually beneficial.
3. Management: CRM is not an activity only within a marketing department. Rather it involves continuous corporate change in culture and processes. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities. CRM required a comprehensive change in the organization and its people.

a) Principles of CRM

The overall processes and applications of CRM are based on the following basic principles.

1. Treat Customer Individually: Remember customers and treat them individually. CRM is based on philosophy of personalization. Personalization means the content and services to customer should be designed based on customer preferences and behavior. Personalization creates convenience to the customer and increases the cost of changing vendors.
2. Acquire and Retain Customer Loyalty through Personal Relationship: Once personalization takes place, a company needs to sustain relationships with the customer. Continuous contacts with the customer especially when designed to meet customer preferences can create customer loyalty.
3. Select “Good” Customer instead of “Bad” Customer based on Lifetime Value: Find and keep the right customers who generate the most profits. Through differentiation, a company can allocate its limited resources to obtain better returns. The best customers deserve the most customer care; the worst customers should be dropped.

b) Reasons for Adopting CRM: The Business Drivers

Competition for customers has become intense. From a purely economic point of view, firms have learnt that it is less costly to retain a customer than to find a new one. Some of the often quoted statistics are given below:

1. By Pareto's Principle, it is assumed that 20% of a company's customers generate 80% of its profits.
2. In industrial sales, it takes an average of 8 to 10 physical calls in person to sell a new customer, 2 to 3 calls to sell an existing customer.
3. It is 5 to 10 times more expensive to acquire a new customer than obtain repeat business from an existing customer.
4. A typical dissatisfied customer tells 8 to 10 people about his or her experience.
5. A 5% increase in retaining existing customers translates into 25% or more increase in profitability.

Another driver is the change introduced by electronic commerce. In electronic commerce the customer remains in front of their computer at home or in the office. Thus, firms do not have the luxury of someone with sales skills to convince the customer.

c) CRM Issues

Customer Privacy: Customer privacy is an important issue in CRM. CRM deals with large amounts of customer data through various touch points and communication channels. The personalization process in CRM requires identification of each individual customer and collections of demographic and behavioral data. Yet, it is the very information that most customers consider personal and private. The individual firm is thus caught in an ethical dilemma. It wants to collect as much information as possible about each customer to further its sales, yet in doing so it treads at and beyond the bounds of personal privacy.

Privacy issues are not simple. There are overwhelming customer concerns, legal regulations, and public policies around the world. The firms can follow the following rules while using the personal information regarding the customers:

- The customer should be notified their personal information is collected and will be used for specific purposes.
- The customer should be able to decline to be tracked.
- The customer should be allowed to access their information and correct it.
- Customer data should be protected from unauthorized usage.

Some companies provide 'customer consent form' to ask the customer to agree to information collection and usage. Providing personalized service to customer is a way to satisfy customers who provided their personal information. All of these efforts are designed to build trust between the company and its customers.

Technical Immaturity: The concept, technologies, and understanding of CRM are still in its early adapter stage. Most of the CRM technologies are immature and the typical implementation costs and time are long enough to frustrate potential users. Many software and hardware vendors sell themselves as complete CRM solution providers but there is little standardized technologies and protocols for CRM implementation in the market. Even the scope and extent of 'what CRM includes' differ from vendor to vendor; each has different implementation requirements to achieve the customer's expectations.

CRM is one of the busiest industries which occurs frequent merger and acquisition. Many small companies merge together to compete with large vendor. Often these technical immaturities or unstable conditions are combined with the customer requirements which are frequently unclear and lead the project failure. These technical immaturities may be overcome over time, but the process may be long and painful.

d) Importance of CRM:

Competition, driven by globalization and the Internet has turned things around. Customers have a variety of choices and most importantly, they have become more knowledgeable and demanding. It is no myth that they are King. With this scenario, companies have realized that it's not just enough to satisfy and delight them but also build genuine relationships in a way that would benefit them. CRM can help gain a greater share of a loyal customer's business.

Customer demands for customization are increasing with every passing day. This has made companies shift their focus from "mass production" to "mass customization". The present scenario of companies using "poorly implemented" multi channel strategies for living up to the expectations of customers is bringing both customer satisfaction and customer loyalty down the ladder. A good CRM system will help a company to: -

1. Provide excellent customer service e.g. customized solutions, differentiated offerings, rapid answers to queries, fast delivery etc.
2. Capture as much information as possible from customers and analyze it in real time, so as to promptly optimize product design, marketing strategy etc.
3. Accurately identify the most profitable customers and focus resources on them. Identify and avoid unprofitable business.
4. Minimizing the cost of interacting with customers and analyzing data or generating reports.

e-CRM Concept

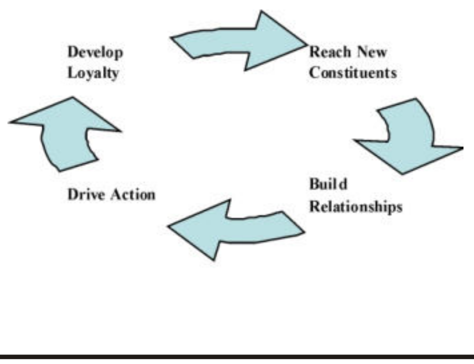
Computers, information technology, and networking are fast replacing labor-intensive business activities across industries and in government. Since the early 1990s, the computer, the Internet, and information technology have been merged to become a viable substitute for labor- and paper- intensive banking processes between and across commercial banks. This has been seen in the widespread use of the ATM, credit cards, debit cards, smart cards, and lending through e-CRM via the Internet.

e-CRM is a combination of software, hardware, application and management commitment. Aim of e-CRM system is to improve customer service, develop a relationship and retain valuable customers. e-CRM is a concern for many organizations especially banking sector.

e-CRM helps organizations attract, motivate and retain the constituents who support the organization. E-CRM is based on four simple steps (Exhibit 2):

1. Reach New Constituents - reach out to new and existing constituents online.
2. Build Relationships - gather information about what interests and motivates them.
3. Drive Action - use that knowledge to communicate with them in a personalized and cost-effective manner that drives higher response and participation.
4. Develop Loyalty - build ongoing loyalty by communicating regularly with constituents and rewarding them for their involvement.

Exhibit 2: Steps in e-CRM



e-CRM can be different types like Operational, Analytical. Operational e-CRM is given importance to customer touch up points, which can have contacts with customers through telephones or letters or e-mails. Thus customer touch up points is something web based e-mails, telephone, direct sales, fax etc. Analytical CRM is a collection of data and is viewed as a continuous process. It requires technology to process customer's data. The main intention here would be to identify and understand customers demographics pattern of purchasing etc in order to create new business opportunities giving importance to customers. Analytical CRM includes all customer-facing applications, including:

- Sales Force Automation (SFA),
- Customer Service (CS),
- Sales and Marketing Management (SMM), and
- Contact & Activity Management [Emerging Market Technologies, 2000].

e-CRM in Banks

All major banks have invested heavily in technology and infrastructure over the last 5 to 10 years in CRM. CRM is much more than a technological solution. It is a strategy integrated in the business model of the banks and clearly oriented to value generation. CRM is a key element of differentiation that lets the bank develop its customer base and sales capacity. Today the environment is changing dramatically, and so too is banks' approach to their customers. A well thought out CRM strategy lets them improve the sales experience of the customer; develop the potential value for customers, increase sales, productivity and efficiency; and create personalized one-to-one service.

CRM is about enterprises collaborating across the customer value chain to develop and implement solutions that better meet the evolving preferences of individual customer groups. The C in CRM therefore has now evolved from 'Customer' to “Collaborative”. The core of CRM requires various entities in a bank to work collaboratively to define and realize a series of business principles which are essential to establish customer-centric organizations. Essentially this means collaboration across those entities that deal with Acquisition (sales & marketing/distribution), Transactions (fulfillment) and Servicing (customer service). This approach is different from the past where CRM was modeled around an ad-hoc set of activities strung together to work across functions. Using the collaborative approach, leading banks are today trying to achieve a state where the customers become less aware of marketing and selling and feel a constant level of personalized, consistent, high quality service.

There are two main points that describe the significant jump regarding CRM, customer demand for sophistication and multi channel approach and orientation. Consequently there are four steps that banks should take to benefit from CRM, change their commercial product vision to a customer centric vision, effectively integrate different channels, ensure data quality and deploy complex marketing strategies.

Today customer centric banking means a new way of thinking. Banks need to focus on relationship banking rather than traditional transaction banking and realize the importance of SOW - share of wallet. CRM is key because the value of retail banking lies in distribution. Knowing the client is the first requirement of a retailer.

Although the potential benefits of a CRM strategy focused on corporate banking were high, firms have been slow to adopt due to the greater complexity of the relationships and number of touch-points. With the advent of more powerful technologies and greater experience in customer relationship management solutions, leading banks are concentrating on relationships with corporate customers.

a) e-CRM Benefits to the Banks

1. Relationship with Customers: To protect and deal with one to one relationship with customers CRM was developed. Once when the organization acquires the customers and is able to have them lastingly forever, this implies that the customer becomes more loyal and making good use of the services of the organization. Trust, cooperation and satisfaction have to be seen as the face of assurance between both the parties, for a long lasting relationship with customers. Banks need to be in constant touch with their customer's in order to build up long-term relationships.

2. Using e-mail for Business Communication: The most popular tool for customer service is e-mail. Inexpensive and fast, e-mail is used to disseminate information (e.g. catalogues), to send product information and order confirmations, to conduct correspondence regarding any topic with customers and business partners, and responding to enquiries from customers. To answer a large number of e- mails quickly and cost-efficiently automated e-mail reply systems are increasingly implemented. Automated e-mail reply responses to customer inquiries are developed using intelligent agents that recognize key words and quickly respond to common queries.

3. Personalized Services or One to One Services: Personalization is a strategy that can be easily differentiated and which cannot be simulated by competitors in the market. A good personalized idea will enhance in the increase of sales, improves the customer relationship.

4. Establishing a Web Site to Market Products or Services: e-CRM providing cost savings, opportunism, and threats drive action and innovation even in conservative banks. They have influenced how banks must re- position themselves to take advantage of new opportunities that include establishing new service delivery channels and new markets for existing services. Many banks have already built web sites on the Internet, offering their products and services. Leveraging the power of the web is a move from static pages to dynamic applications that are connected to organization's data.

5. Transaction Security: Safety was seen as a major issue in adopting internet transactions. Banks were worried about unauthorized access to their systems, and customers were concerned about the protection of their personal data and the risk of false transactions. Banks have been able to manage security with least repercussions,

b) e-CRM-Benefits to Customers

1. Customer Interaction and Satisfaction: Interaction has got a very prime place in the banking services. However in order to make the interactions good it is highly important that both banks as well as customers actively involve themselves in the interaction. The relationship, which is maintained between customer and organization, has always a special place in the banking industry when compared to other industries. The interaction process has includes three major factors.

   a. Information exchange
   b. Business or financial (transactions)
   c. Social exchange

The bank should know what exactly the client wants; at the same time client should also make sure that has enough knowledge about the bank offerings. Social exchange involves more of maintaining long-term relationship with the customers. Confidence, trust, ethics and friendship to some extent are the aspects of the social exchange.

2. Convenience: With the increasing knowledge and superiority, of the customers banks are now trying to attract the customer by determining the aspects, which are really vital for them. Thus the aspects may include facilities, reputations, service, operation hours, interest on savings as well as on loan, location of the bank, convenience, friendliness, responsiveness, efficiency of employees, ambience of the banks, etc. Convenience plays a vital role when selecting a brand and if the customers are not happy with the convenience of a particular brand. It doesn't take much time to switch brands. The extent of influence of the convenience on the customer is that it can also make the loyal customers to switch the brands.

3. Speed of Processing the Transaction through e-Response: Faster processing the transaction by e-CRM, the fact that e-responses to customer queries, order acknowledgment, delivery and payment information via e-mails or automated responses are greatly appreciated by customers. It has also been highlighted that the nature of e-responses also helps strengthen the relationship between the supplier and the customer and makes up for the personal response that prevails in the traditional shopping arena. E-mail responses were widely used by businesses to acknowledge receipt of orders, payment and delivery of information.

4. Trust: Trust is an essential relationship structure, which is found in most of all relationship models. Trust factor can be seen in many ways like motivation to depend on a substitute partner and one who sees confidence in him.

5. Service quality: Service quality has its connections with the events that are behavioral like the outcomes from a mouth of a human being. There's a lot of attention that has been focused in the relationship between service quality and its outcomes such as profitability and retention of customers and their loyalty. Five proportions of service quality are reliability, responsiveness, quality, empathy and assurance. Service quality is an important criterion that is being used by the customers in selecting a bank. Accounts, transactions accuracy, carefulness, factors in subject with functional quality, availability of the information technology, helpful and friendly personal and effectiveness in correcting mistakes are the most important determinants for the customers to determine the bank.

Case Studies

a) WELLS FARGO

Banking differs from other industries because the average relationship between customer and bank lasts much longer on the. Wells Fargo is one of the leading banks which transform these relationships into opportunities. It was the first bank which started 24-hour phone banking service and opened branches in the local supermarket and Starbucks coffee house. Wells Fargo always tried to provide more touch points to its customers and a one-stop shopping environment.

Since 1993, Wells Fargo tried to integrate all of its back-end customer information into its Customer Relationship System. Previously, customer information was managed by several different backend systems. Software was organized by account number, with each backend system using its own numbering system. Customer service agents found it difficult to integrate customer information when they received a request to transfer from one account to another. They had to log on to several different systems to obtain the information and do the transactions requested. In the new system, the service agent can access all required information by using the customer's social security number instead of the account numbers. These changes increase convenience for both customers and service agents.

Wells Fargo provides Internet banking. It built a Web site as a new contact point in 1995 and provided advanced technologies to its customer. By using online banking, customers can manage their account anytime and anywhere. Online banking also saves operating cost of the bank branches. In the future, Wells Fargo will try to build online customer communities (similar to America Online or the World Wide Web) in its banking service by responding to customers' needs with new technologies.[Seybold, 2000] By providing more power to manage their account and money, Wells Fargo expects to increase customer loyalty and obtain long term mutual benefits with its customers.

b) ICICI BANK

A powerful, scalable and flexible technology platform is essential for banks to manage growth and compete successfully. Finacle provides just the right platform to ICICI Bank, thereby fuelling its growth. The bank has successfully leveraged the power of Finacle and has deployed the solution in the areas of core banking, consumer e-banking, corporate e-banking and CRM. With Finacle, ICICI Bank has also gained the flexibility to easily develop new products targeted at specific segments such as ICICI Bank Young Stars - a product targeting children, Women's Account addressing working women and Bank@ campus targeting students.

ICICI Bank is today recognized as a clear leader in the region and has won numerous accolades worldwide for its technology-driven initiatives. In 2003, the bank received the best multi-channel strategy award from The Banker magazine and this year it has been rated the 2nd best retail bank in Asia by the Asian Banker Journal. The bank has effectively used technology as a strategic differentiator, thus not only redefining the rules of banking in India, but also showcasing how technology can help in transforming a bank's business.

In 1997, ICICI Bank was the first bank in India to offer Internet banking with the help of Finacle's e-banking solution and established itself as a leader in the Internet and e-commerce space. The bank followed it up with several e-commerce services like bill payments, funds transfers and corporate banking over the Net. The Internet is a critical element of ICICI Bank's award-winning multi-channel strategy and is one of the main engines of growth for the bank.

Exhibit 3: Finacle Core Banking Solution in ICICI Bank

Between 2000 and 2004, the bank has successfully been able to move over 70 percent of the routine banking transactions from the branch to other delivery channels, thus increasing overall efficiency. Only 25 percent of all transactions take place through branches and 75 percent through other delivery channels. This reduction in routine transactions through the branch has enabled ICICI Bank to aggressively use its branch network as customer acquisition units. On an average, ICICI Bank adds 300,000 customers a month, which is among the highest in the world.

Table 1: Share of Transactions of Different Channels

Channels	Share of Transactions March 2000	Share of Transactions March 2004
Branches	94%	25%
ATMs	3%	43%
Internet and Mobile	2%	21%
Call Centers	1%	11%

The above table shows that after the adoption of Finacle in ICICI Bank, share of transactions through branches dropped to just 255 in March 2004 as compared to March 2000. Whereas, the share of transactions through ATMs, internet and Mobile and Call Centers increased from 3%, 2% and 1% in March 2000 to 43%, 21% and 11% in March 2004 respectively.

Exhibit 4: Retail Customers

Exhibit 4 clearly shows that there has been continuous increase in the retail customers of ICICI Bank. The number of retail customers in March 2001 was 1.9 million which increased to 3 million in March 2002 and further increased to 12 million in December 2004.

Exhibit 5: Internet Customers

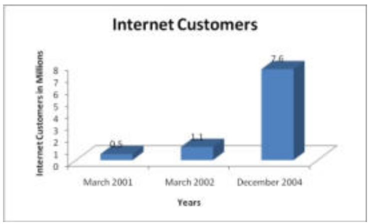


Exhibit 5 shows that there has significant increase in the number of internet customers of ICICI Bank. The number of internet customers in March 2001 was just 0.5 million, which rose to 1.1 million in March 2002 and further increased significantly to 7.6 million in December 2004.

Conclusion

Electronic Customer Relationship Management (E-CRM) has forced marketing managers to reevaluate how, when and to what extent they interact with their customers. Banks will lose loyal customers if they do not recognize and react to the changing demands of customers. In addition, marketing to a new a customer will be more expensive and time consuming. Every customer will require something a little different and will want to know why one product is better over another product.

When executed appropriately, a CRM strategy can deliver significant quantitative and qualitative business benefits. The quantitative benefits are driven by two main factors: reduced costs and increased revenues. Looking at these two factors more closely, CRM solutions let banks reduce the cost of acquiring, selling to, and serving customers, and they help banks enhance revenue by increasing sales per representative, sales per customer, average order size, and other revenue-driving metrics. Since banks pursue high growth strategies, expanding their franchises into growth segments, and are really aware of the winning concept of the multi-channel and multi-price approach, CRM becomes key and critical.

CRM is not technology, it is business. CRM has to improve the "moment of truth" when the client is with the bank making the contact more efficient and more satisfactory for the customer.

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