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“Customer Relationship Management” - In Banking Industry

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ABSTRACT

Today's customers buying decisions are not based simple on the quality of the product or services but with the relationship they have with the company/Banks. With the entry of many foreign banks and the setting up of many private sector banks, there is an increased competition in the banking sector to retain and obtain customers. Today many banks are meeting this competition by adopting strategy that is known as Customer Relationship Management (CRM). CRM is not only being viewed as business strategy but should become a corporate mission. Banks should start treating customers as son-in-law so that their daughters' (deposits/loans) will be happy in turn they make you (Banker) happy and prosperous. An effective CRM helps to meet the multiple challenges of the Banks, and there by providing superior experience to customer, gaining long term loyalty. A loyal customer will work as an ambassador to the bank and facilitate growth of business hence CRM is a gateway of prosperity.

Keywords : Banking, Customer Relationship Management, CRM – Technology

Introduction:

Indian Banking Scenario:

The Indian Banking System Comprised 27 Public Sector Banks 7 new private sector Banks, 15 old private sector Banks, 86 Regional Rural Banks, 4 local area Banks, 1721 Urban Co-operative Banks, 31 State Co-operative Banks and 371 District Central Co-operative Banks. The total number of Bank Branches is over 90,000. The Average population coverage by a commercial banks branch improved from 15,000 as on June 30th 2005 to 13,400 as on June 30th 2010. The Total aggregate deposits is `46,90,703 corers and total credit is `33,82,928.

Bank that wishes either to grow the size of its business or improve its profitability, is considering the challenges surrounding its customers relationships. They are:

1. Acquiring new customers more cost effectively
2. Increasing revenues from existing customers.
3. Increasing retention rates amongst high value customer.
4. Win back the lost customers.
5. Reducing the costs of sales and servicing.

The customer expectations for quality service and value are increasing rapidly on a continuous basis. Thanks to the development of IT and Internet, Mobile Phones, Which are changing the Possibilities in terms of customer contact and service? Today many banks are meeting this expectation by adopting a strategy that is commonly known as Customer Relationship Management (CRM)

The RBI former governor Dr. Y.V.Reddy said that backs should accord highest priority to customer services and reduce procedural incontinence to the customer as a matter of priority. Hence most of the Indian Banks are now turning to CRM as they increasingly realizing that the cost of acquiring new customer is far higher than the cost of retaining existing ones.

Customers Relationship:

“Customer is a God in our Premises. By entering into our premises, he is giving us an opportunity to serve him but we are not doing any favor by servicing him” - Mahatma Gandhi

Let us first examine “who a customer is?” The definition of ‘customer’ is broader term and covers Corporate, Government department's partners, agents. Third parties etc., Put simply, a customer is any legal entity who has a relationship with the Bank from time to time.

Banking is service industry and delivers its service across the country to ultimate Customer. The activities of Banking Industry are all about relationship. Relationships are not built overnight. They pass through different stages namely contact, involvement, intimacy, deterioration, repair and dissolution. A relationship can terminate from any of these stages. It is, therefore, essential for a bank to understand the stage at which it could better sell banking services. Cross-selling or up-selling can be attempted at certain stages to get better results.

The strategy behind the management of customer relationship is basically concerned with sustaining relationship, it moves around management of customer life cycle. A typical customer relationship starts with acquisition of customers through personal visits, medial advertisements or through referrals from existing customers. Then the cycle moves on to customer development by way of personalized communication and offering customized products and services bases on what is mutually considered as good. Once the customer relationship is built up, bank branches can easily afford cross selling and up selling. But there is a danger of the customer migrating from the relationship, but at what stage and fro what reasons the customer is migrating has to assess by the individual bank branches. Using the historical database, branches can identify the underlying causes for such migration and accordingly redraft their relationship management strategies to minimize future attritions.

Customer Relationship Management:

CRM is neither a product nor a service, but a business strategy to learn more and more about the customers behavior a in requirements in order to create long-term relationships with them. In other words, CRM is a comprehensive approach that provides seamless integration of every aspect of Banks business that comes in contact with the customers at vari-

ous stages such as marketing, service delivery, after-sales-service etc. through the integration of people, process and technology. It is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value of the bank and its customers.

The Components of CRM:

- (i) Customer Acquisition Through:
 - Reference by existing customers, Branch Network, Marketing
- (ii) Customer Retention Through:
 - Data warehousing and analytical tools, Customer Services, Call service and Customer Care Centre
- (iii) Improved Customer Value Through:
 - Providing Services through modern Technology, Core Banking solution, ATM, Mobile Banking Internet Banking, Anywhere Banking, RTGS and E T F . Management for cross-selling and up-selling.
- (iv) Data warehousing and analytical tools.
- (v) Customer Grievances Redressal Through
 - Committee on customer service,
 - Customer Care Centre
 - Grievance Redressal Policy

Advantages of CRM:

CRM has number of positive effects on the running of a bank. It provides management with a clear picture of the business, facilitating decision making. Implementation of the CRM concept in banks can result in the following advantages.

- Speed and accuracy in information analysis
- Foundation for organization-wise data and information.
- Understanding customer behavior
- Facilitating business process re-engineering
- For selling multiple products-credit, deposits, investment, insurance etc.
- For management of multiple distribution channels branch, ATMs, internet, customer care centre field sales etc..
- Multiple customer groups-customers, small business, corporation etc.
- Differentiating High Value/Low value customer.
- Increased productivity of Managerial executives, Sales and Customer Services staff.
- Reduced training Costs.
- For having systematic exit policy.

Banks no longer see CRM as an optional and expensive, but as a 'Must' to service in this ever increasing competitive market.

Category of Customers:

Banks are aware that all customers are not equal. Customer's profitability varies from person to person/context to context and not all customers are evenly desirable for the banks. Banks must differentiate their customers based on the 'values criteria' i.e. how valuable the customer is? Value is nothing but the profit or loss the customer adds to the bank's account.

From the point of profitability potential and personality profile, customers can be classified into 5 categories

- Low value/less profitable customer desiring high-grade service.
- Low value/less profitable customer with potential to become high value in coming days
- High Value/more profitable customer desiring high-grade service
- High value/more profitable customer requiring low-grade service
- Potential loss making customer requiring constant monitoring.

Once the banks differentiate their customer's vis-à-vis profitability and their traits, it becomes easy for banks to customize their services and offerings to maximize the overall value of their customer portfolio.

Retaining a Customer:

It is five to ten times cheaper to retain existing clients/custom-

ers than to acquire new one. Understanding the needs and behavior of every individual existing client is the art of CRM. A customer has only a single relationship with the bank when he purchases products and services, and so understands the bank. Banks on the contrary, have thousands and millions of customer relationship in their portfolio. Hence, it is practically impossible to satisfy the subsequent need of each and every their portfolio. Hence it is practically impossible to satisfy the subsequent needs of each and every existing customer to the same levels what he/she had enjoyed at the beginning of the relationship. Thus, retention of customers becomes a challenging task. Once good service is extended to a customer, a loyal customer will work as an ambassador to the Bank and facilitate growth of Business. A study published in Harvard business review concluded "Some companies boost profits by almost 100 percent by retaining 5 percent more of their customers.

Implementing CRM Technology:

Any bank which is implementing CRM technology in its business should chase the following steps.

Data Warehousing:

The effort begins with building the data on customers. The data warehouse exists to enhance banker's ability to make informed decisions.

Designing the Database:

A good starting point is to first consider what output the banks from the database and what the bank wants the database to do for it. Often, it is more than one thing, and thus, the bank must make a list of things it wants the database to do. In addition, the bank must make a list of all outputs that is anticipated the database to produce e.g. reports, screens etc..

Data Mining:

Database designing is followed by data mining where bank's strategists analyze the past trends/patterns to forecast the future behavior/demand from customers for various services and products, and take action accordingly. They carry various analyses on the collected data to determine customer's behavior on products, interest rate and distribution channel. Data mining provides the intelligence behind the CRM initiative.

Information needed for an effective CRM Solution:

- Information about the Bank such as infrastructure, cost of funds etc.
- Market information
- Demographic distribution of present segment of customers by: Age, Sex, Level of income Qualification of Marital status.
- About bank's valuable/best customers : Products/Services they purchase for, The segment they belong to, Their habits, tastes, preferences and their business and future prospects
- Customer Information at the individual level: Personal information (name, address family background, qualification etc.), the customer group/segment to which the individual belongs, Present and past behavior record, Interests, disinterest, habits and preferences.

Shortcoming of CRM in Banking Industry:

1. The complexity and magnanimity of Banking Industry makes it harder to adopt a holistic and integrated customer approach.
2. Banks tend to focus more on the products with cost funds and return on investment in mind than on the customer.
3. Customer is always interest rate sensitive for both deposits and advances. They shift from one bank to another to take the benefit of interest rates.
4. Since most banks are considerably big in size and branches are situated in different parts viz., Rural Semi Urban, Urban and Metro centers the cost involved is considerably higher.
5. Frequent transfer of operational staff also affects the CRM

6. Various types of risks involved especially market risk, credit risk, counter party risk, country risk, etc may pose a challenge to segregate the customer on the basis of their net worth / competence which may result in NPA (Non performing Assets) in the Banks.
7. Inadequate staff support hamper implementation of CRM.

Banking Ombudsman and complaint Redressal Policy of the Bank:

The Banking Ombudsman scheme formulated by Reserve Bank of India enables an expedient and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by Banks. One can file a complaint before the Banking ombudsman if the reply is not received from the Bank within a period of the month after the Bank concerned has received one's representation, or the Bank rejects the complaint, or if the complainant is not satisfied with the reply given by the Bank.

However, the Banks should not allow the complaints to reach that level. Prudent handling of complaints can save Bank from irreparable loss. Customer dissatisfaction would spoil Bank's name and image. If a satisfied customer can add 100 new

customers and the dissatisfied can deduct 1000 customers. Now a day's all the Banks have suitable grievance Redressal mechanism for receiving and addressing complaints from its customers with specific emphasis on resolving such complaints fairly and expeditiously regardless of source of the complaints. Banks are also having standing committee on customer service headed by a senior executive of the respective Banks.

Conclusion:

Customer Relationship Management is not only being viewed as business strategy but should become a corporate mission. Banks should start treating customers as son-in-laws so that their daughters (Deposit/ Loan) will be happy, in turn they make you (Banker) happy, and prosperous. CRM needs the bank culture to shift from being 'task oriented' to 'result oriented'.





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