



## A Study on Customer Retention Through Crm in Banking Sector

### KEYWORDS

Banking Sector, Customer Relationship Management, Customer- Experience.

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### ABSTRACT

Consumers mainly select their banks based on how convenient the locations of bank's branches are to their homes or offices. After the development of new technologies in the business of bank, such as Internet Banking and ATMs, now customers are freely choosing the bank for their transactions. The pressures of competitive and dynamic markets have contributed to the growth of CRM in the Financial Services Sector.

5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Therefore, banks are now focusing more on retaining customers and increasing market share. Private Banks have traditionally viewed themselves as exceedingly 'Customer Centric' offering what they believe to be highly personalized services to the High Net Worth Customers. The structured approach to CRM provides various benefits to the bank, viz., and a distinctive and consistent customer experience, clear identification of the organizational, technological and process-related capabilities and prioritization of these capabilities. This paper discuss about the structure and hierarchy of the customer experiences.

### Introduction

Generally, few people changed their banks unless serious problems occurred. In the past there was, to certain extent, a committed, often inherited relationship between a customer and his/her bank. The philosophy, culture and organization of financial institutions were grounded in this assumption and reflected in their marketing policies, which were product and transaction-oriented, reactionary, focused on discrete rather than continuous activities.

Today, financial institutions can no longer rely on these committed relationships or established marketing techniques to attract and retain customers. As markets break down into heterogeneous segments, a more precisely targeted marketing technique is required, which creates a dialogue with smaller groups of customers and identifies individual needs.

Also, before the Internet revolution, consumers largely selected their banks based on how convenient the location of bank's branches was to their homes or offices. With the advent of new technologies in the business of bank, such as Internet banking and ATMs, now customers can freely chose any bank for their transactions. Thus, the customer base of banks has increased, and so has the choices of customers for selecting the banks.

This situation coupled with the pressures of competitive and dynamic markets has contributed to the growth of CRM in the Financial Services Sector.

### The Concept: Customer Relationship Management:

Customer Relationship Management is the establishment, development, maintenance and optimization of long-term mutually valuable relationships between consumers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy, people, technology and business processes.

At the heart of a perfect CRM strategy is the creation of mutual value for all the parties involved in the business process. It is about creating a sustainable competitive advantage by being the best at understanding, communicating, and delivering, and developing existing customer relationships in addition to creating and keeping new customers. So the concept of product life cycle is giving way to the concept of customer life cycle focusing on the development of products and services that anticipate the future need of the existing customers and creating additional services that extend existing customer relationships beyond transactions.

### Need of CRM in the Banking Industry

A Relationship-based Marketing approach has the following benefits: -

Over time, retail bank customers tend to increase their holding of the other products from across the range of financial products / services available (Service "Anytime Anywhere").

Long-term customers are more likely to become a referral source.

The longer a relationship continues; the better a bank can understand the customer and his/her needs & preferences, and so greater the opportunity to tailor products and services and cross-sell the product / service range.

Customers in long-term relationships are more comfortable with the service, the organization, methods and procedures. This helps reduce operating cost and costs arising out of customer error.

With increased number of banks, products and services and practically nil switching costs, customers are easily switching banks whenever they find better services and products. Banks are finding it tough to get new customers, and more importantly, retain existing customers.

According to a research by Reichheld and Sasser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Therefore, banks are now stressing on retaining customers and increasing market share.

**Private Banking and CRM**

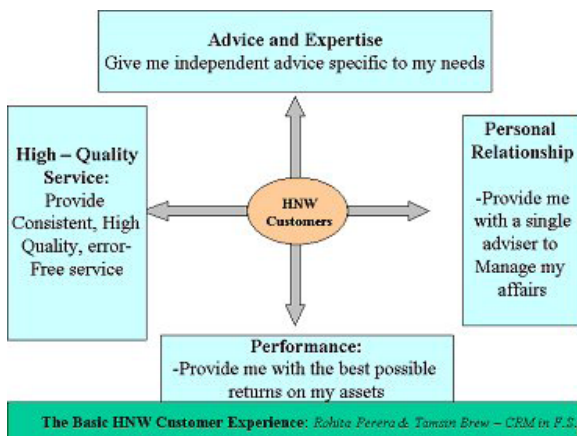
Private Banks have traditionally viewed themselves as exceedingly ‘Customer Centric’ offering what they believe to be highly personalized services to the High Net Worth Customers. However, changes in the customer behavior and accumulation of wealth are resulting in the needs of HNW customers becoming more diverse and complex in terms of the sorts of products they want, the channels through which they want to access them and the associated range of advice.

The wealthier the customers, the more demanding they are - and the clients expect more and more from their banks. Competition for “Supremely elite” is increasing.

**Customer Experiences**

The first step towards successfully winning, retaining and growing the profitability of private banking customers is to understand what their wants and needs are, so that the organization can be built around serving those needs. Only when an organization has done this and incorporated this into its strategy can it start to design its value proposition and a customer experience that will enable it to achieve a differentiated competitive position in the private banking market, and more importantly, do so in an economically viable way.

**The Basic Customer Experience**



There is a basic ‘generic’ customer experience that many private banking customers are seeking. To be a credible player in the market, a private bank must be able to deliver this ‘base’ experience. This represents a common set of needs that are shared by most HNW customers. Therefore, the private bank must have the capabilities required to meet these needs for the majority of its customer base.

All customers, regardless of wealth levels, have similar emotional needs, which drive their need for advice and their purchase of products. Different wealth levels impose different priorities on meeting these needs and open up new avenues for doing so.

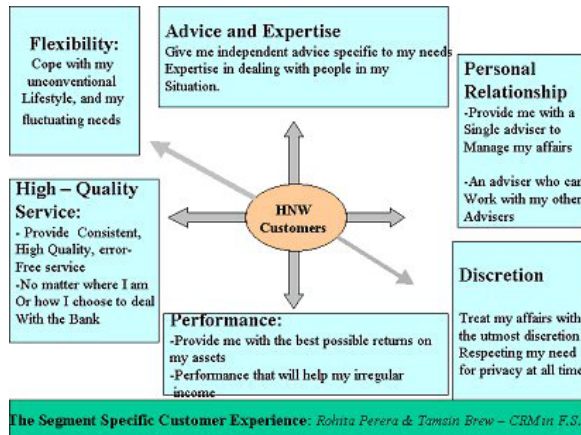
Take a simple example, HNW customers can afford on it to fund their retirement, so their priorities may be associated with growing wealth, rather than preserving it, allowing them to choose a product option with a higher risk/reward ratio.

If this is true, it means all HNW customers start with a basic, common set of what they want and need from a bank, which might include: -

- Personal, long-term relationship
- Advice combining industry expertise and knowledge of personal circumstances
- High quality, consistent quality
- Security, privacy, confidentiality
- At this basic level, grouping together these core wants and needs produces a set of generic characteristics that an HNW individual seeks from an organization before he or she will even consider placing any of his or her wealth with it.
- Underlying these generic characteristics is a set of capabilities covering organization, process and technology, which the private bank must process to operate in the high net worth market.

**The Segment-Specific Experience**

To build this ‘base’ experience, private banks also need to consider the segment-specific needs of their target customers. This in itself requires a capability to identify and justify target customers and understand their needs beyond banking, to ensure that their emotional needs are met. It is here that the customer is made to feel like an individual, but it is also at this point that costs and infrastructure spiral, as customers’ needs start to diverge.



The segmentation process identifies groups of customers with similar wants and needs, who are seeking a similar experience from the provider. Importantly, from the organizations’ viewpoint, this means that they can also be served by similar sets of capabilities.

**The experience at this level is made up of: -**

The channel preferences of each segment and associated channel experience - for example, a self-directed group of customers will use internet for transacting, information gathering and even some advice, whereas advice seekers and less financially sophisticated segments require more access to an adviser / relationship manager and a more basic experience over the Internet.

The product and service preferences of that segment - for

example, the more sophisticated customers are more likely to demand more complex products such as alternative investments, whilst others may prefer discretionary portfolio management.

The new components are added to the experience and the 'base' experiences elements become defined in more depth, according to the specific needs of the customer segment.

Once the segment experiences have been defined, the associated capabilities must again be identified. The hierarchical approach to defining customer experiences helps filter these capabilities as: -it is possible to identify experience elements that are common to more than one segment - this will carry a higher priority for development as they will benefit more customers; the segmentation exercise will provide comparative sizings for the target segments.

Capabilities required for the larger, more profitable segments take precedence over those needed for smaller segments.

### The Organization-Specific Experience

Having identified the base and segment specific elements of HNW customer experience, the final step is to identify how the experience that each organization offers its customers is distinct from other banks. Now this would mean that one has to distinctly identify the components of the experience that are not only associated with a particular bank but also be the key differentiator.

This process will define: -

- Elements of the organization style and culture.
- Products and Services to be provided.
- In the same way, every brand is different, so is the experience.



### Conclusion

Banking can be mysterious for consumers and how they interact with their finances can be a complex matter. The challenges faced by banks and their customers are many but the trick lies in de-mystifying complex financial relationships.

Technical solutions deployed by banks today are flexible, user-friendly and meant to facilitate specific workflow and requirements in implementation processes. In order to simplify lives, banks have begun to implement end-to-end technologies through all departments with the intention of removing human error from processes. Previously existing manual environments could not have been adequate for future visions, growth plans and strategies.

In this day and age, customers enjoy complete luxury in terms of customized technical solutions and banks use the same to cement long-term, mutually-beneficial relationships.

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