

CRM in the Banking Industry



Marketing

KEYWORDS : Customer Relationship Management (CRM), Business process, Systems integration and Case study research,

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ABSTRACT

A number of Customer Relationship Management (CRM) implementations has grown dramatically in recent years. However, few academic studies of the issues associated with the implementation of the concept are available. In this paper, the author offers a modest contribution through the analysis of various bank's CRM model, implementation and strategic issues. The study also highlights that implementing CRM requires effective leadership, sourcing, targeting and evaluation strategies. The required provision of information is searched through personal contacts with bank specialized staff. The primary criterion for bank selection is the existing cooperation with the bank, while recommendations by brokers, real estate contractors and lawyers are taken into consideration. Younger people are more well-disposed towards receiving financing for primary residence and land, while women are more positive towards buying land. Employees and existing clients, mainly higher education graduates, could be easily approached through direct mail techniques. Informational brochures could contain reference on the advantages of investing in real estate and the possibilities offered on financing for purchasing secondary residence.

INTRODUCTION

Banking institutions today face many challenges including global competition for deposits, loans, and underwriting fees; increasing customer demands; shrinking profit margins; and the need to keep up with new technologies.

Indian banks had presumed that their operations were customer-centric, simply because they had customers. These banks ruled the roost, protected by regulations that did not allow free entry into the sector. And to their credit, when the banking sector was opened up, they survived by adapting quickly to the new rules of the game. Many managed to post profits. For them an unexpected bonanza came from government bonds in which most were hugely invested. Ironically, the Reserve Bank of India's moves to cut aggressively the interest rates after 1999, pushed up the prices of bonds. So banks had a windfall doing almost nothing. The bond profits, like manna from heaven, improved the balance-sheets of all banks irrespective of their core performance. However, the era of lazy banking is soon to end. The mesh of rules that propped up the Indian banking industry is now being dismantled rapidly.

According to a RBI road-map, India will have a competitive banking market after 2009. As one of the most attractive emerging market destinations, India will see foreign banks come in, what with more freedom to come in, grow and acquire. Therefore, it is imperative that Indian banks wake up to this reality and re-focus on their core asset — the customer. A greater focus on Customer Relationship Management (CRM) is the only way the banking industry can protect its market share and boost growth. CRM would also make Indian bankers realize that the purpose of their business is to “create and keep a customer” and to “view the entire business process as consisting of a tightly integrated effort to discover, create, and satisfy customer needs.” CRM is a simple philosophy that places the customer at the heart of a business organization's processes, activities and culture to improve his satisfaction of service and, in turn, maximize the profits for the organization.

CRM PHILOSOPHY FOR BANKING 1

A successful CRM strategy aims at understanding the needs of the customer and integrating them with the organization's strategy, people, technology and business process. Therefore, one of the best ways of launching a CRM initiative is to start with what the organization is doing now and working out what should be done to improve its interface with its customers. Then and only then, should it link to an IT solution. While this may sound quite straightforward, for large organizations it can be a mammoth task unless a gradual step-by-step process is adopted. It does not happen simply by buying the software and installing it. For CRM to be truly effective, it requires a well-thought-out initiative involving strategy, people, technology, and processes. Above all, it requires the realization that the CRM philosophy of doing

business should be adopted incrementally with an iterative approach to learn at every stage of development. Only time will tell how Indian banks embrace the CRM philosophy and take on the competition from foreign entities.

CHALLENGES FACED BY RETAIL BANKS IN IMPLEMENTING CRM 2

Retail banks are facing greater challenges than ever before in executing their customer management strategies. Intensifying competition, proliferating customer contact channels, escalating attacks on customer information, rising customer expectations and capitalizing on new market opportunities are at the top of every bank executive's agenda. In looking for ways to drive growth, banks need to evaluate their customer management strategy. EDS' deep experience in implementing CRM solutions for global financial services clients has positioned them as a recognized leader in the CRM industry. They optimize the customer experience and increase satisfaction and profitability, while dramatically reducing their clients' operating costs.

FOCUSING CUSTOMER KNOWLEDGE IN BANKING TO HAVE CRM 3

Financial institutions that best manage customer relationships put customer knowledge at the center of their value proposition. Customer relationship management (CRM) succeeds when your people understand the customers' perspectives and priorities, enabling your people to deliver high-quality, personalized sales and service. Improving the customer experience requires an in-depth knowledge of customer needs and behavior. Highly adaptable solutions from Microsoft and its partners give your people the strong business intelligence and insight that result in a consolidated view of client data and greater customer intimacy. These solutions are key to better serving customers and to the resulting growth opportunities based on increasingly profitable relationships with customers

Models of implementation of CRM in Indian banks and others



Japanese Bank- Bank of Tokyo Mitsubishi 4: This article attempts to highlight the learning from Customer Relationship Management (CRM) implementation in the banking sector. CRM

systems are particularly relevant to Retail Financial Services companies, allowing much of the management of the customer relationship to be automated with the objective of maximizing the profitability of individual customer relationships whilst minimizing the cost of managing those relationships. The study is supported by a case study of CRM systems in a major Japanese Bank- Bank of Tokyo Mitsubishi and also a field survey of scenario in Indian banking sector. The various issues examined include organizational information, the CRM strategy, strategic changes resulting from CRM implementation, implementation priorities for the banks and the factors indicating the performance after CRM implementation. The study revealed that CRM is gradually picking up and is definitely considered as a viable proposition by banks in improving services to their customers. One of the major challenges experienced during implementing CRM is resistance to change. To get CRM to work, high commitment is required in those who are implementing it.

UTI Bank implemented Oracle 11i E-business Suite for its CRM needs. 5 An IVR extracts customer data, which is populated on the call center agents desktop. With a browser based view of the customer's record, the agent can process the customer's queries faster, resulting in a higher throughput. To host the mission critical database and CRM solution, UTI Bank needed an architecture that was based on open standards, as it was looking at customizing the Oracle CRM solution to a high degree. After an extensive evaluation, the bank realized that Red Hat Enterprise Linux, with its transparent framework, was the perfect match. Moreover, it delivered the necessary performance, security, flexibility and scalability that was critical for the success of the project.

FAST FACTS - Industry : Banking		
Challenges	Solution	Benefits
Customize CRM to a high degree Handle a rapidly scaling call workload with out any disruption in service. Allow call center agent to have an "always connected" view of the data base.	Platform: Red Hat Enterprise Linux Software: Oracle 11i E-Business Suite, Oracle 9i database & Red Cluster Suites	Benefits: Serves handle close to 7,000 calls a day with 99.99% uptime. System can accommodate massive growth in call volumes over the next two years Complete freedom from virus & security related risks.

Today, six servers running the Oracle database and CRM application are powered by Red Hat Enterprise Linux v.3 AS. Four servers run the Red Hat Cluster Suite for redundancy and failover services. The Oracle 9i Database, IVR, Oracle CRM application and cluster services all run on Red Hat Enterprise Linux servers. The hardware infrastructure consists of HP DL 580's, DL 380's and HP EVA 5000 SANs. UTI Bank has been turned into an Open Source believer after the success of its call center project. The bank has set the lead for the hundreds of BPOs and call centers in the country to follow. By running their CRM infrastructure on an open, standards based platform like Red Hat Enterprise Linux, BPOs can achieve significant TCO reduction along with high performance and security.

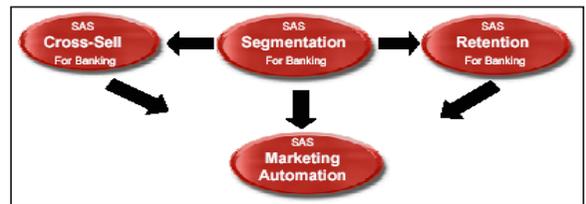
First European Bank: segmentation

Segment	Important criteria to adapt CRM relationships
First segment (18 per cent)	<ul style="list-style-type: none"> Enjoy high risk levels Frequent use of self-banking, telephone, e-mail, etc. Keen to buy insurance with their bank
Second segment (18 per cent)	<ul style="list-style-type: none"> Enjoy low risk levels Most frequent use of self-banking, telephone, e-mail, fax, etc. Not keen on buying insurance with their bank
Third segment (23 per cent)	<ul style="list-style-type: none"> Enjoy low risk levels Frequent agency visitors; no telephone, etc.; seldom use of self-banking Do not consider bank as good insurance providers
Fourth segment (32 per cent)	<ul style="list-style-type: none"> Enjoy low risk levels Most frequent agency visitors; no telephone, etc.; very seldomly use self-banking Not opposed to buying insurance with their bank
Fifth segment (9 per cent)	<ul style="list-style-type: none"> Enjoy medium risk levels Frequent agency visitors and frequent use of self-banking; no telephone or e-mail, etc. Particularly opposed to buying insurance with their bank

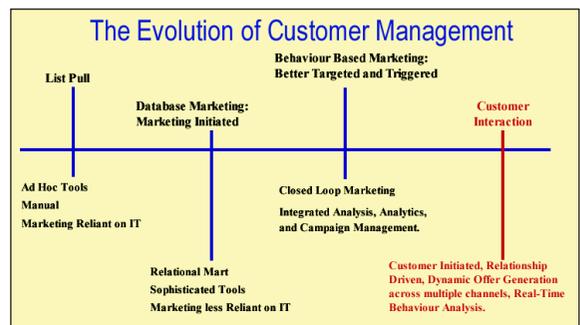
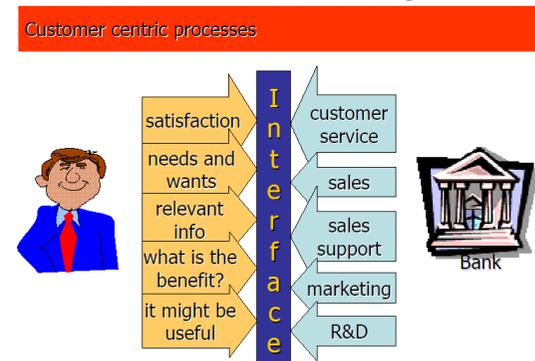
Customer Relationship Management Components 6

There is an evolutionary approach to CRM that focuses heavily on "customer equity" assets management. This approach begins with business strategy development. Next, a data infrastructure is created that supports customer interactions. Then, a technology infrastructure is designed to produce CRM results. Finally, customer communication channel strategies are created, and strategy execution technology is used to create an on-going dialog with the customers.

Customer Analytics Components Interactions



Source: Maximize CRM investment through CCP



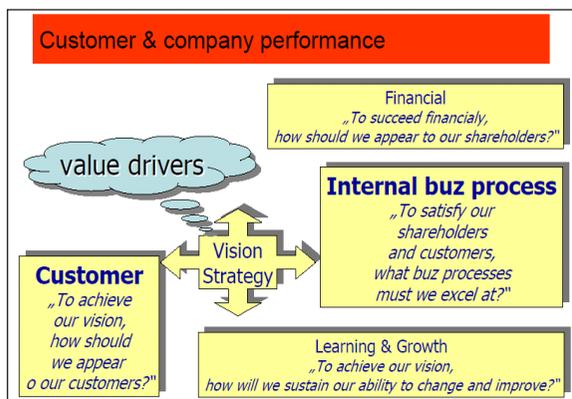
Source: Maximize CRM investment through Analytical

Implementation of CRM 8

CRM normally involves business process change and the introduction of new information technology, consequently effective leadership is important Galbreath and Rogers (1999). Because leaders monitor the external environments of an organisation they are often the best placed to set the vision or strategic direction for CRM projects. In addition, leaders are influential in the authorisation and control of expenditure, the setting and monitoring of performance and the empowerment and motivation of key personnel Pinto and Slevin (1987).

As CRM reaches into many parts of the business it has been suggested that organisations should adopt a holistic approach Gishankar (2000). The holistic approach places CRM at the heart of the organisation with customer orientated business processes and the integration of CRM systems. Ciborra and Failla (2000) conceptualise CRM beyond a front office contact management system. For others, CRM goes further to constitute operational, analytical and collaborative elements Trepper (2000). Holistic approaches to CRM help organisations coordinate and effectively maintain the growth of disparate customer contact points or channels of communication. However, problems of channel conflict have been identified where by customer experiences

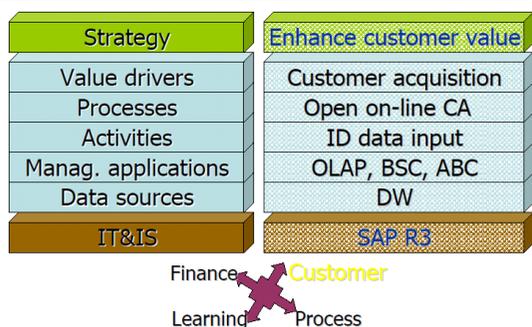
differ depending on the sales channel Peppard (2000).



Source: CRM in Customer Prospective, Real time, Jan2007
A Successful CRM Strategy

- Create a customer-focused organization and infrastructure
- Gain an accurate picture of your customer categories
- Accurately assess the lifetime value of your customers
- Maximize the profitability of each customer relationship
- Understand how to attract and keep your best customers
- Maximize rate of return on marketing campaigns

Strategy-based IS design



- Implications of the 6 imperatives
- Establish a data architecture that supports a single view of the customer
- Implement analytics that support customer segmentation and profiling
- Implement modules to analyze and predict risk and profitability
- Implement modules that maximize cross-sell and up sell initiatives
- Implement customer retention modules in your DSS
- Implement an integrated campaign management system

A CRM project management model

In developing our model, we first review various CRM models [1, 2, 5, 7, 8] and the popular software project management models [3, 6, 9, 10, 12]. The implication of each model on software project management in financial industry is identified. In addition, after reviewing several case studies of CRM implementation [11], we identified some key success factors for software project management in the financial industry. We then developed a Software/CRM Project Management model for financial institutes, as shown in Figure. Four primary business factors forming the software project management environment in financial service industry are identified as technology, CRM/IT strategy, customer requirements and organization culture & characteristics. Financial institutes that implement CRM project have to consider their existing technology level as well as the technology level that they are going to acquire in the future. The considerations of existing technology level include operational tools, analytical and collaboration systems, degree of process automation, the diversity or complexity of legacy systems and other hardware and software systems. However, the future technology acquired has to be in line with their CRM/IT strategy, at the same time, meeting the customer

requirements. The organizational culture and characteristics affect all aspects of the project management. Organization of different size and complexity requires different system requirements. Quick decision making, agile to business changes, ability to take risk and keen for efficiency improvement are also some of the culture and characteristics that shape the behavior of the management and employees.

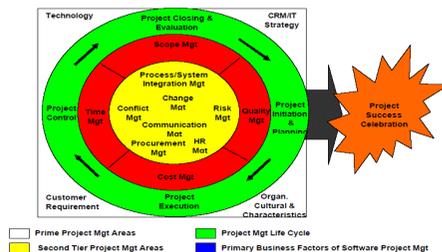
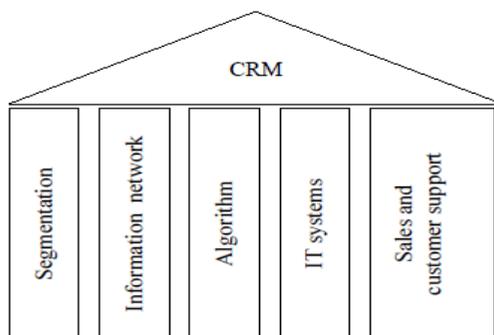


Figure: Proposed Software/CRM Project Management Model for Financial Service Industry
THE BCG'S FIVE PILLARS SUPPORTING CRM IMPLEMENTATION 9

The bank – via the consulting company – has adopted the Boston Consulting Group's approach to CRM, which rests on a five-pillar approach (Figure 3). These five pillars, which are segmentation, information network, algorithms, IT systems, and sales and client support, represent the basic issues that are to be tackled and managed by companies wanting to implement relationships with their clients.



In order to be efficient, the bank has set deadlines for each group of actions. As of today, the implementation of CRM program is efficiently dealing with the two first group of actions, the testing and foundation phases, which should be finished early 2002. As for the other three groups of actions, they are expected to have been dealt with by the end of 2005. However, the bank is expecting its earliest profit due to the implementation by the end of 2002 or beginning 2003.

CONCLUSION

The results of the study are cause for concern for they support the findings of other surveys that show a high failure rate for CRM. This research was conducted because of the relative lack of CRM empirical studies, particularly within this business sector. This modest contribution has identified and analysed some of the approaches and theories relating to CRM and CRM project implementation. The study confirms that CRM is a complex and holistic concept requiring appropriate business processes and integrated systems. In addition the study demonstrates the relevance of the need for effective leadership, sourcing, targeting and evaluation within CRM strategies. Despite a decade of developments in respect of business process change, systems integration and information sourcing, it is only now with the threat of CRM centric competition, targeting customers effectively. The impact of CRM is real and the failure to implement it effectively seems to be typical. This is a disturbing scenario because of the accumulation of factors that now need to be tackled, the lack of expertise to resolve them and the lack of time in which to respond appropriately. Thus there is a great need for additional empirical research within CRM to identify the extent of such issues, the state of organisational effectiveness and for further or new insights

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