

CrM in Banking Sector – A Review

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Abstract

Banking is the core of the entire financial services sector. Banking is such an important sector that it touches the life of every human being in some way or the other. Indian Banking Sector what we see as it is today was not the same earlier. Tremendous changes have taken place in this particular sector in such aspects as the way banks operate, in technology, operational speed and most especially in their approach towards dealing with customers, in the last 10 years or so. At a time when the Indian banking sector was monopolized by few public sector banks, the level of attention given to the customer was very low. But in today's changed scenario, i.e. after the entry of a number of private and foreign banks in the Indian banking sector, there has been a shift in the focus of Indian banks from 'transaction focus' to 'relationship focus'. The cut-throat competition that exists among the various public, private & foreign banks has necessitated them to adopt a strategic approach in dealing with their customers. Today banks are the major followers of Customer Relationship Management practices. "Customer Relationship Management is the process of attracting, maintaining, and enhancing customer relationships". ---- Berry (1995) Customer Relationship Management or Retention Marketing represents a paradigm shift within marketing away from an acquisition/ transaction focus towards a relationship focus. Building long-term and profitable relationships with chosen customers and getting closer to these customers at every point of contact with them are the two major goals of CRM. The present paper is an attempt made by the author to present the meaning of CRM, regarding how Indian banks have transformed from transaction focus to relationship focus, factors that created a strong need on the part of Indian banks to adopt CRM, the IDIC framework in banking and the relationship marketing strategies that help a banking firm in bonding with its customers.

Keywords: Banks, CRM, Factors, Marketing Strategies, Meaning

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Introduction

Banking is the core of the entire financial services sector. Banking is such an important sector that it touches the life of every human being in some way or the other. Indian Banking Sector what we see as it is today was not the same earlier. Tremendous changes have taken place in this particular sector in such aspects as the way banks operate, in technology, operational speed and most especially in their approach towards dealing with customers, in the last 10 years or so.

At a time when the Indian banking sector was monopolized by few public sector banks, the level of attention given to the customer was very low. But in today's changed scenario, i.e. after the entry of a number of private and foreign banks in the Indian banking sector, there has been a shift in the focus of Indian banks from 'transaction focus' to 'relationship focus'. The cut-throat competition that exists among the various public, private and foreign banks has necessitated them to adopt a strategic approach in dealing with their customers. Today banks are the major follower of customer relationship management practices.

What is CRM?

"Customer Relationship Management is the process of attracting, maintaining and enhancing customer relationships". --- Berry (1995)

"Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and for the customers". --- Sheth & Parvatiyar (2001).

Building long-term and profitable relationships with chosen customers and getting closer to these customers at every point of contact with them are the two major goals of CRM. CRM is the need of the hour in the present scenario prevailing in the Indian Banking Sector.

Shift in the focus of Indian Banks from transaction focus to relationship focus:

During the pre-liberalized era, customer relationship was less in practice in Indian Banking sector due to various reasons such as, the availability of a less number of banks (only public sector banks), less demanding customers, low level of technology, etc.

Banking sector earlier in India was more of a seller's market and the level of attention given to the customers was relatively low. During the post- liberalization era and the moment the government of India opened the gates for the entry of private and foreign banks, things have started changing very fastly. The Indian banking sector today is a highly contested one with a number of private and foreign banking firms such as ICICI Bank, HDFC, ING Vysya, Axis bank, Citi bank, HSBC bank, etc. in addition to the public sector banks. The fierce competition that exists among the banking firms is forcing them to move closer to customer, adopting a relationship or retention focus.

Factors that created a strong need on the part of Indian banks to adopt CRM:

The following factors have made CRM a strategic necessity on the part of banking firms in India.

- 1) Rising customer expectations
- 2) Technological advancements
- 3) Intense competition
- 1) **Increasing customer expectations:** Indian customer who we see today was not the same earlier. He/ she has changed a lot, especially in terms of expectations due to the following reasons:
 - a) **Reduced patience levels of people:** People of yester years had high patience levels. They would not mind waiting for hours together in a bank for getting even a simple service like money withdrawal earlier. Today, in the age of technology, even a 10 or 15 minutes waiting in a bank would make customers highly impatient. Waiting is something most people can't tolerate today. This has created a strong need on the part of banks to be more efficient in their operations.
 - b) **Busy lives due to the growing number of working women:** One of the reasons for reduced patience levels of people is due to the growing trend of nuclear families where in both husband and wife working is fastly increasing. They prefer that bank which provides them the prompt service.
 - c) **People's readiness to switch to new service providers:** If one bank fails to provide customer the prompt service and give individualized attention, he/she is ready to another bank, given the greater number of options available today.

- 2) **Technological Advancements:** Technological advancements like ATMs, internet banking, mobile banking, etc. have enabled banks to get closer to customers and provide customized services and products by maintaining a database of regular customers.
- 3) **Intense Competition:** Due to increased competition, banks today have realized the importance of retaining its customers and found it more profitable to focus on their existing customers. Studies have shown that it costs up to 6- 8 times more to attract a new customer than to retain an existing customer. Due to competition among banks, customer got immensely benefited in terms of increased quality and customer responsiveness.

The IDIC Framework for building loyal customers in banking sector:

Peppers & Rogers (1993), gave IDIC framework to explain the process of converting existing customers into loyal customers. It represents the 4 key steps in the relationship building process.

Identify: This step requires the bank to locate and contact a large number of its customers directly and know as much detail about them as possible. These days banks are requesting its customers to give their details such as address, contact number, e- mail id etc. under the name 'Know Your Customer' (KYC). Every interaction with the customer through any channel should be seen as an opportunity to learn about them and this knowledge has to be used to serve them better.

Differentiate: Normally, in banking sector customers are differentiated on the basis of the value they represent. The value represented is an indication of the customer's worth to the bank- the more valuable they are, the more the bank should be interested in retaining them. Differentiation should also be done based on the needs of customers. Customers with specialized needs create opportunities for customization.

Interact: The purpose of interaction is to learn more about customers. It can be done through formal surveys, telephone interactions, or self- service channels like the bank website, call centers or ATMs.

Customize: This is the most critical step. When the customization is done on the basis of what the customer has indicated during his interactions, it helps the customer enjoy a high level of convenience, which cannot be imitated by competitors.

Relationship Marketing Strategies in Banking

The greater the enhancement of the relationship through bonding, the more committed the customer is to the relationship and hence he/ she is less likely to switch over to competitors. Berry & Parasuraman (1991) have identified 4 levels of bonds. A bank can develop a strong bonding with its customers, by following retention marketing strategies at 4 different levels:

Level 1: Financial Bonds

Level 2: Social Bonds

Level 3: Customization Bonds

Level 4: Structural Bonds

Level 1: Financial Bonds

The financial bonds tie in the customer primarily through financial incentives. Banks normally try to retain their customers by giving loans at relatively low interest rates for customers who have been patronizing the bank over a period of time. Giving loans to farmers at low interest rates, providing the home loan customers the option of making pre- payment without any penalty charges and calculating interest on the balance amount after the pre- payment, offering gold coins at discount prices to regular customers on some special occasions etc. are some of the examples for financial incentives given by a bank to its regular customers with a view to retain them.

Level 2: Social Bonds

Bonding with customers through financial incentives are the weakest bonds, as they can be easily imitated by competing banks. At this level the bank can retain its customers for long by developing more social and friendly relations with them. What every human being likes is a friendly, caring and understanding nature. Social bonds along with financial bonds are difficult to break and are more enduring in nature.

Level 3: Customization Bonds

Technological advancements in banking like ATMs, Online banking facility, mobile banking etc. have enabled banks to customize their services the per requirements of the customer. Mass customization by using technology enables a bank offer customized services to its customers while reducing unnecessary costs.

Level 4: Structural Bonds

At this level there is a greater bonding between the customer and the bank and the relationship between the parties is characterized by shared processes and equipment and integrated data bases. Here, there is a partnering relationship between the bank and its customer.

Here, level 2 retention strategies are stronger than level 1 and level 3 strategies are stronger than levels 1 & 2 and level 4, the ultimate level retention strategies are stronger than the first 3 levels of retention strategies. As a bank progresses from level 1 to level 4 retention strategies, while retaining the previous level strategies, the relationship between the bank the customer gets strengthened and the customer is less likely to switch to competitors.

Conclusion

There is still a long way to go in implementing customer relationship management by banks, as the trend started only in the recent past. Still in some rural areas the level of attention and promptness in service given by few public sector banks to their customer is very low. When talking about the value of customer to a business, Mahatma Gandhi said,

“A customer is the most important visitor on our premises.

He is not dependent on us. We are dependent on him.

He is not an interruption in our work. He is the purpose of it.

We are not doing him a favour by serving him.

He is doing us a favour by giving us an opportunity to serve him”.

If a banking firm can follow the above valuable words given by Gandhi, it will definitely become the best bank in the world for customer service.

References

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