

“CUSTOMER RELATIONSHIP MANAGEMENT IN THE BANKING SECTOR”

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Banking as a business has witnessed a sea change, particularly, in the post-liberalization period. The three important factors, which have caused this change, are communications revolution, expectations revolution and technological changes. Customers who are at the centre of any business in a new economy are looking for diversity in the banking services and their preferences for delivery channels are changing. Competition has put customers' loyalty to test and it has become a difficult task for the bankers to maintain relationship with customers. A customer has started expecting products with better attributes and conveniences. There is an attitudinal change in their behavior. In this context, building customer relationship assumes significance.

Objectives:

The objectives of this paper are:

- i. To understand the evolution of relationship marketing. ✓
- ii. To examine the goals of relationship building. ✓
- iii. To evaluate the benefits of customer relationship marketing. ✓
- iv. To know the relationship value of customers. ✓
- v. To suggest strategies of CRM for Indian banks. ✓

Methodology:

The paper attempts to examine the available literature and some survey evidences and reviews customer relationship in the backdrop of changing circumstances.

Evolution of Relationship Marketing:

Banking is a service industry. Marketing of its services is a difficult job. Though Indian banking industry has registered phenomenal growth, it has been facing tough competition from non-financial and other financial institutions in the recent years. The problem of growing competition has become a cause of anxiety for bankers.

Originally, banking as a business was built on mutual trust between the banker and a customer. The trust proved by the banker through honesty and integrity enhanced the loyalty of the customer towards bank. In those days life was simple and competition was limited that created customer loyalty. With the advent of competitors, loyalty is on the decline and customers are becoming more and more demanding. It is to retain customers and market share,

banks started contemplating on building strong relationship with customers. They have started evolving a CRM strategy.

The customer relationship marketing has brought about a shift from mere transactions to a relationship focus in marketing. It represents a shift from acquiring a customer to retaining the customer. CRM is a philosophy that advocates keeping and improving relationships with existing customers rather than acquiring new one. It aims at building long term commitment between service provider and receiver. CRM works well for services where transactions are on a continuous basis and switching costs for customers are very high.

CRM, like any other social relationship, evolves over a period of time. It evolves through such stages as strangers, acquaintances, friends and partners. When a customer first comes to a bank as a stranger, the banker by providing expected services makes him to come again and with frequent visits and transactions converts him into an acquaintance and further continuing this relationship builds a trust in his/her mind making him a friend and later converting him as a customer. With deep commitment by providing improved quality service, long-term relationship is built and customer is retained and refrained from shifting. In a competitive world, retaining a strong customer base is of great importance.

Goals of CRM:

CRM demonstrates that relationship building aims at acquiring customers, satisfying them, retaining and enhancing customer value. The primary goal of relationship marketing management is to build and maintain a base of committed customers who are profitable for the organization. To build customer relationship and enhance the same, customer information system helps.

Benefits of Customer Relationship Building:

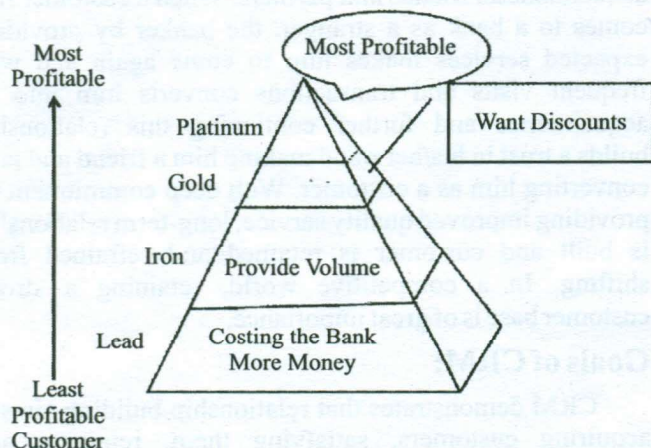
Customer relationship building exercise entails certain benefits. It will make customers loyal to the organization when they receive greater value than expected from competing banks. It also builds confidence in customers about banks. Customers over a period time develop a sense of familiarity and social relationship is built with the service providers. Customers at this stage enjoy doing business with banks. In course of time,

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customers start getting preferential treatment and enjoy special benefit. A bank also benefits from such long-term relationship. It derives economic benefit in terms of higher returns on investment, lower costs and increased volume of transactions. Another benefit is customer behavior provides to free advertisement through word of mouth communication. Customer relationship spread over a time period enhances the value of the bank.

Relationship Value:

Relationship value shows the contribution of a customer during their relationship with a bank to later's profitability. Since a bank is building a long-term relationship with a customer, it is natural to expect the benefits out of this relationship in terms of profitability. In this context a bank considers all such factors that influences the relationship value which include average lifetime of association and revenue likely to be generated, sales of additional products over time, referrals generated by the customer and the costs associated for serving the customer. On the basis of customer relationship value, the customers may be divided in four categories building a customer pyramid.



Strategies for CRM in Banking

Customer retention by building long-term relationship has become essential for banking industry with increasing competition and changing business environment due to Globalization. Customer focusing is not to be viewed as just a business strategy but should become a mission. Banks have no option than to peruse customer-focused strategy.

To build long-term relationship, banks have to first identify the possible/probable customers and study their profile. They should build a database. Personal contacts and effective communication strategies will help in this regard. The customer needs to be later converted into a

client. A customer will become a client when he is satisfied with the services of a banker and frequently visits the bank. To retain the client, a bank should develop and implement relationship-marketing strategy. The strategy should provide for social reinforcement, reassurance, benefit reinforcement, solving customer problems, customization of service and service enhancement.

Its necessary to satisfy customer's esteem and affiliation needs. This can be done by socializing with the customer's Greeting the customer on his birthday, attending functions organized by him, sending personal invitation for bank functions, receiving him at bank with respect and personal attention attending to his/her work with care which would make him happy and comfortable. Reassurance refers to trustworthiness, commitment and reliability. A concern for customer by keeping in touch offers reassurance. Communication benefits of a service provided by the bank provides benefit reinforcement. Attending to the problems of customers concerning bank service and solving them strengthens relationship. Every customer should feel special. This requires customization of service to meet particular needs of the customer. Giving something extra or special to the customer to put him in a comfort zone would add value resulting in service enhancement.

Banks also need to organize activities that help in retaining customers. Quality of service and customer satisfaction is important for long-term relationship. Leonard Berry and A. Paraguayan¹ have suggested a framework for understanding the types of retention strategies that help developing bonds with customers. Bankers need to build financial bonds, social bonds, customization bonds and structured bonds with the customers. The surveys conducted about customers' perception of banking services have demonstrated that customers are happy with e-banking services and also enhancement and competitiveness of banks in providing quality service. Any new method adopted by banks using technology needs to be properly communicated to the customers. There is lack of awareness about the usage of technology s. Some banks are using more of technology and human touch is lost. / Many problems are arising in banks today because customers rarely go to banks due to use of technology. Human face of banking industry is lost. One-to-One contact that existed earlier between banker and a customer resulted in building mutual trust and better understanding. Technology has vitiated this environment to some extent.

CRM would help in bridging this gap created by technology between banker and a customer. As a part of CRM strategy, erstwhile UTI bank created a revolution in banking industry by opening up a boutique branch in Pune

¹ Leonard Berry – Discovering the soul of service, The Free Press, New York (1999)

in November 2007 as its priority banking services to the high net worth customers. It recognized that the needs of high net worth individuals differ from the other customers and this segment has high potential for growth and profitability. The priority bank organized many customer appreciation programmes to demonstrate that they value relationship. UTI bank organized a Corporate Golf Tournament for customers particularly professionals and winners were honoured. It also organized programmes for customers such as classical music concerts, fun games for children and screening of Mani Ratnam directed film "Guru". Such socializing with customers will build strong relationship and customers will develop a sense of belongingness.

Indian banks need to preserve human face by evolving a suitable CRM strategy. CRM is the only way banks can

build long-term relationship and retain their customers to become winners in the competitive era.

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