

Customers Relationship Management— A new mantra in Indian banking

Nowadays banks have to work keeping in mind the position of the financial market and anticipate change in the market place and prepare themselves accordingly. They have to make new resolutions to build further on their own strengths to explore new avenues of Customers Relationship Management. This is the only strategic weapon to be pursued for excellence in the pursuit of performance and achievement. Both the retention of old business as well as to search for new business, CRM is the only choice. CRM, being the essence of modern banking, a sound understanding of the key principles, its theories and practices should be revisited and redefined to provide

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a road map to new ideas and techniques in the field. Over the years, banking institutions have been feeling the pressing need of putting up greater thrust on this initiative for improving their operations and appearances.

The focus on CRM

The profitability of a bank depends to a large extent on its ability to deploy its fund in high yielding loan portfolios of their customers. But with the increasing competition of lowering interest rates by different banks, interest spread is touching the low ebb every day. The demand for credit from the corporate sector is diminishing due to more efficient management of working capital, availability of cheaper funds from other routes etc. According to the Centre for Monitoring Indian Economy (CMIE), during 2000-01, the working capital cycle of manufacturing companies fell to 21 days compared to 60 days a year ago. In the year 2001-02, the cycle further reduced to 14 days and became negative during 2002-03. Taking as a percentage on sales, working capital ratio had dropped to three per cent from a level of 13 per cent over the last five years in case of 4,000 selected manufacturing industries. The demand for working capital will be in the declining stage in the years to come. Further, there is lack of investment demand in the market. These developments have led the banks to go in search of new business opportunities where they can put their resources and earn a reasonable margin to add to their bottom lines. After a lot of exercise and consider-



able thought, they identify the retail sector and commit for considerable retail lending as a means to serve their ends.

Driving forces for retail lending

There are several driving forces to support this move. Firstly, for years together, the Indian retail market was largely untapped. With retail lending at levels far below those prevailing in other Asian countries, the opportunities for exploring the possibility of lending in this segment continues to be immense and all banks, more or less tried to capture this huge market.

Secondly, India, being a poor country, it is a matter of realisation that the bottom 75 per cent of the consumer pyramid basically relates to the retail sector customers, and if one is looking at a growth opportunity, it must focus its attention with tailor made products and services to meet their needs. Banking is no exception to this reality.

Thirdly, in an attempt to market tailor made innovative products, consumers are being supplied with abundant infor-

mation through paper advertisement, TV advertisement, cellphone calls, personal counseling to make them aware of the facilities and opportunities available in the market. This endeavour on the part of the banks is leading the customers in their process of information abundance and thereby acting as customer leader. Customer leadership is a concept to project the product or service of the firm the benchmark for the market (customers), which visualise all competitive stimuli in term of benchmark product or service. But there is another side to the coin. With the entry of several players in the field, particularly foreign banks and private sector banks, the customers today has a wide array of choices which is increasing day by day with the rapid and exponential development of communication technology. With this increased knowledge base and better information they are demanding more and more satisfaction and choosing to optimise the value of their money for goods and services. This had added momentum to the competition.

Then, of late, there has been a tremendous improvement in Non-Performing Assets (NPAs) due to introduction of certain new methodologies such as new foreclosure law, the CDR mechanism, the Debt Recovery Tribunals and the provision of one time settlement. The establishment of ARC (Assets Reconstruction Committee) and enactment of Securitisation Act have helped in a big way to liquidate a huge amount of unmoved loan being carried forward for years together. Now a clear message has been ventilated in the community that bank loans are not for charity, but are to be repaid and the bank management is there to recover it. Under the changed scenario of NPA management, Bank managers are not hesitating in disbursing new loans.

Also, another major force behind this retail revolution is technology involved in today's banking. Technology has developed to such an extent that the customers are in a position to take advantage of "AAA" banking. (Any time, Any where and Any how) banking through ATM, the Internet, CBS (Centralised Banking Solution) etc.

In addition, there is enough scope in the case of mortgage loan. According to a study, Indian mortgage market grew from around 15,000 crore in 1997 to 60,000 crore at the end of 2002 or at a compound annual growth rate (CAGR) of 32 per cent. It will not be out of place to mention here that at the same time China's mortgage grew by a CAGR of 113 per cent.

Further more, retail loans



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There has been a paradigm shift in the Indian Banking landscape since the last two decades. LPG (Liberalisation, Privatisation and Globalisation) of Indian economy has opened the banking sector to foreign and private players intensifying competition. Different alternative solutions have been made available for both short-term and long-term requirement and investment of funds at comparatively attractive terms. People forget the monopolistic scenario of the public sector banks for financial needs, now they have a wide choice, greater expectation and lesser sacrifice in terms of cost, time and efforts. Customers have come into the main focus and bank managements are gradually recognising that their ultimate success depends on the customers' satisfaction—a buzz word of Customers Relationship Management (CRM). An in-depth analysis of the concept has been made in the article below.

are considered to be safe and according to the managers of some eminent banks there is less risk involved in managing a fat retail portfolio. Besides, in the case of small and medium enterprises (SME) and farmers in many cases such loans have been roped in big companies to back them in default.

CRM Principles

The main principles of CRM can be grouped into seven guiding factors:

1. Customer focus

The first and foremost important guiding principle in CRM is customer focus. Who is a customer? This question is very fundamental. A customer is a person or group of persons who receives the product or service—the final output of a process or group of processes. A customer is the final arbiter of quality, value and price of a product or service. A satisfied customer only assigns value to a service, on the contrary, to a dissatisfied customer a product or service has no value, even if the concerned service or product has been designed with lot of effort, energy and cost after a thorough planning. A satisfied customer motivates his fellow members to go in for the service or product that he has already acquired. But a dissatisfied customer always counsels his friends, and fellow members not to go to banks where his experience proved to be wrong or otherwise. So customer's delight or customer's satisfaction is the essence of any CRM program. As a part of this focus on customers, banks should ensure that clients are identified, their requirements are determined,

understood and met enhancing customers' satisfaction.

The main thrust of CRM is to improve an organisation's efficiency, economy and effectiveness through reduction of sales cycle times and selling costs, identification of new markets and channels for expansion, improvement of customer value, satisfaction, retention and thereby increasing profitability and market share of the enterprise.

Successful CRM focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the

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business by integrating them with the organisation's strategy, people, technology and business processes. (Heygate, 1999). There must be total commitment for the enterprise towards this end.

2. Leadership

Persuasion, judgment and decision-making abilities are the main attributes of quality leadership. When there is a slight chance of getting a business but the client is hesitating or in a fix, or not in a position to decide properly, it should be followed up by the relationship manager by patient hearing, mild counseling and to stand

by the side of the prospective client to help clear his doubts and to make him feel happy by realising that he is going in the right direction and he is very right in choosing his requirements. The following points may be found helpful in this regard:

- (a) It is to be communicated to all employees that all customers should be given a proper hearing and it should be supported from all levels.
- (b) Ways and means should be identified and practiced of getting and staying closer to customers.
- (c) Proper respect should be extended to the customers. All relevant information should be collected from them with humble and polite approach. Proper value should be given to their feedback.
- (d) There should be proper reaction to the information and feedback provided by the customers in designing, developing and providing desired products at affordable cost.

3. Process approach

A process transforms an input into desired output by the use of resources, energies and time. In producing an output there may be one single process or a group of inter-related processes. In case of inter-related processes, often the output from one process directly forms the input to the next. For effective functioning of an organisation, it has to identify and manage numerous linked activities with the help of different processes for accomplishing its goal. Proper attention should be given to the following points:

- (a) All processes should be designed keeping in view the requirements and desires of the customers, within the policy, resource availability, strategy of the company.
- (b) All processes should meet the legal and statutory requirements to perform the activity or deliver the product or service.
- (c) Time involved in processing should be minimum with least waiting time to the customers. If required delegation of authority and assignment of accountability at various executive levels should be addressed, revised and fine-tuned to meet the requirements.
- (d) All the processes should be properly integrated to meet the goal congruence and should not function at cross-purpose.
- (e) There should be in built control mechanism for ease of measuring, reviewing and taking corrective action.

4. System approach

CRM is based on a system approach to management. Its primary objective is to increase value to customers on a continuous basis by designing and improving organisational processes and systems on an ongoing basis. Meeting customer's requirement is one level of commitment. That level implies a system that is reactive and provides to customers what they want but the target should be to achieve more and to exceed the customer's expectation to accommodate future requirement and to build a cushion against the competitors' attributes.

CRM denotes the management of the entire system

and is not confined to only one or the other sub-systems or functional departments. Each sub-system may have its own goal but the goal and objectives of all sub-systems are to be integrated to achieve the overall goal. There may be one sub-system to acknowledge the customer's order, a separate one to deliver the product within the delivery schedule, another sub-system to comply with the complaints of the customers etc, but all directed to accomplish the goal—value to the customers. The total system as a whole should decide what product to make or what service to offer, what should be the quality involved, what should be the price, what markets and customers to target upon and similar other issues.

5. Involvement of people

The fundamentals of CRM bears the genes of customer relationship through involvement of people, i.e., the workforce at the disposal of the organisation. The whole gamut of CRM is for the people, of the people and by the people. People involvement at all levels is essential for the success of a CRM program. The bank managers and staff must be in a position to exploit the concept of customer relationship completely. Customer relationship may be defined as that dimension of relationship marketing that seeks and ensures customer loyalty by fulfilling promises and continuing to satisfy customers wants and needs so that defection is zero. It comprises of three levels of relationships; financial relationship, social relationship and structural relationship. The main focus of financial relationship is fre-

quency marketing programs based on financial incentives such as reduction of processing fees, low rate of commitment charges, organisation of loan mela on special occasions etc. A social relationship program revolves round a social bonding between company and its customers and establish brand loyalty. Bankers, nowadays, make house calls, offer different services outside their formal activities, share the feelings and emotions of clients and even send clients flowers on birthdays and anniversaries. A marketing relation with the middleman and interested groups is developed in an inside-out manner mainly based on software, which would help in data warehousing, data mining and data analysis. The optimisation of structural relationship lies in the replacement of physical resources by total service replacement. Drawing of money through ATMs instead of physical presence in the branch for withdrawal of cash through cheques or withdrawal forms may be cited as example. To obtain the full benefits of people involvement, the human resource management should focus on employee empowerment, productivity linked reward, zero defect service oriented training and total quality management.

6. Mutually beneficial customer relationship

The relationship with the customer should be based on a mutually beneficial relationship. A bank should not concentrate its attention towards earning of profits only, but focus should be directed to the customers' wealth creation or value enhancement with

the motto of earning through service. As an example we can talk of a savings account that's 'fixed up' to give you more interest. It ensures that any balance in your savings account above a certain amount, say, Rs 3,000 automatically gets transferred to a fixed deposit to give you higher returns, which will be swept back into your savings account, when you need it. Sometimes, other benefits are also extended, such as, free personal accident insurance coverage along with fixed deposit scheme above a certain amount and above a certain term. Banks are no more restricting their activities to deposit and advances; rather they work with the motto of offering 'Integrated Total Package Solutions' to all needs of a customer. Banks have gone to the extent of booking cinema tickets, paying utility bills, school fees etc. for the ease of their clients who are very busy and do not find time for such work. Many of such activities are not profitable in terms of time and efforts spent by the bank. But banks are carrying out such services for mutual benefits, which pay in the long run. Wealthy individuals are in the habit of placing all sorts of demands on their private bankers and a bank has to respond to such requests not merely for income generation but as a gesture of goodwill and at times such activities add a considerable percentage to a bank's fee based income. According to an estimate, a bank can earn Rs 35,000 to Rs 100,000 per annum for a good customer. But generally it is found that earnings start after the first two-three years of dealing with the customer. In a mature relationship, such fee-based income is a regular feature and is very

much crucial in today's banking where interest spread is getting reduced due to competition and fee based income can increase the bottom line. But in many instances, the expenses in terms of time, effort, recognising individual needs and offering a customised investment solution are high. Retention of customers and building a long lasting relationship is the main criteria under this concept.

7. Continual improvement

Another objective of CRM is the efforts towards continuous improvement in the customer relationship through the provision of value added services at favourable cost. Business processes in the areas of finance, system integration, human resource management etc. are to be automated and optimised with an aim to increase the efficiency and effectiveness of operations. The most effective way of improvement lies in innovation and change management. Today's successful organisations must stimulate and foster innovation and master the art of change. Organisations that maintain their flexibility, spontaneity and unpredictability, continually improve their quality and, beat their competitor to the marketplace with a constant stream of innovative products and services, will be the winners. The major areas to be targeted are:

- (i) Improving the effectiveness of marketing.
- (ii) Implementing multi-channel trigger driven marketing.
- (iii) Implementing a strategic analysis capability to support strategic decision making.
- (iv) The ability to deliver the increasing levels of service demanded by customers.

- (v) Building a transparent communications system and employee participation to better define the needs of the customers and deliver the right services and products.

Implementing CRM in banks

Although CRM as a concept is of recent origin its tenets have been around for some time. Field officers in the banks have always promoted closer relationship with customers, but the focus on customer orientation rather than product orientation as a commitment has been on the Indian banking scene for nearly a decade. But the fact remains that implementing customer relationship management is not easy.

There are really very few organisations that are actually optimising customer experiences at all points of contact. It is necessary to understand who customers are and what they value, select customer carefully, design products and services that deliver the desired value, design effective sales channels and customer touch points, recruit and equip employees to deliver and increase customer value, and constantly refine your value proposition to ensure customer loyalty and retention (Forsyth 1997 and Goldenberg 1998)

With the advancement of banking technology and computerisation and networking of bank branches, banking customers are becoming more and more dynamic and less loyal in their behaviour. The development of the Internet is further adding to this trend and the whole market becomes transparent and customers are in a position to move easily from one bank to another. In such a

situation, customer satisfaction is the key to bank marketing, which aims at retention of the old customers and their bringing in new customers.

CRM deserves differential treatment to different class of customers at times. Service can be given to customers either personally through individuals such as customer service manager or the process can be automated by using computers. These different approaches are adopted depending on the value of relationship with the customer. Personal management of relationship is extended to business customers and high value personal customers and automated relationship management to lower margin mass-market segments.

CRM system can open up new channels of delivery, which are most cost effective. We can cite example of the Internet and call centers. According to an estimate, cost per transaction through these modes can be reduced by 90 percent when compared to cost of transaction at branch. To offer better and extended services to customers new technology platforms are being created through huge investment in Information Technology in banking sector. The recent development in this field is the introduction of CBS (Core Banking Solutions). A CBS helps in centralising the transactions of branches and different banking channels and the customers start banking with the bank instead of at different branches. This is the only way to offer seamless transactions across different channels (branches, the Internet, the telephone and Automated Teller Machines or ATMs). As such nowadays a customer is called a customer of the bank

rather than of a branch.

Another problem generally faced by a bank in implementing CRM is resistance to change. The banking industry is passing through a radical transformation, from a sellers market to a customers market, a regulated economy to a more liberalised and open economy, advancement in technology and a lot of other developments. These complex changes are forcing the banks to change the way they do business. A change denotes making things in a different manner. It should be planned properly, proactive and goal oriented. It requires two things:

Firstly, the ability of the organisation to adapt changes in the business environment is to be increased. Secondly, the mindset of the employees has got to be changed in the development of right attitude, skills, expectations, perceptions and behaviour.

Implementation of CRM in Indian banking is still in its initial stage and has to go a long way to develop and raise it to the global standards. But the Indian banks including the public sector banks are coming in a big way to address this issue to remain competitive with their counterparts—the foreign and private sector banks.

Conclusion

No business enterprise can sustain itself for long without customers' support and loyalty. So every organisation always attempts to maintain a cordial relationship with its customers to effect sales and thereby to generate income. Enterprises adopt different strategies to accomplish their goals. One such strategy practiced by banks is CRM. Its aim is to gain and

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retain customers loyalty in lieu of goods and services for their optimum satisfaction. With increasing competition and pressure on margin, banks need to practice CRM to enhance customer base for increasing capabilities for targeting market programs along with greater flexibilities to adopt processes and working methods to meet customers expectations. CRM focuses on two major issues:

- (i) Increase in knowledge base and communication management;
- (ii) Understanding of customers micro environment.

Being a customer centric approach CRM advocates responding to customers' choices and preferences and exploiting the opportunities arising in the process. It is characterised by a more integrated and forward looking approach that utilises a common language in aligning strategy, process, people, technology and knowledge to the evaluation of customer relationship and its management in banks. With the development of banking technology and openness of Indian banking sector, of late, CRM has assumed a crucial role in marketing banking products and services. □