Study of Customer Relationship Management in Banking Sector

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Abstract:

Customer relationship management (CRM) is a term that refers to practices, strategies and technologies that companies use to manage and analyze customer interactions and data throughout the customer lifecycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth. CRM systems are designed to compile information on customers across different channels -- or points of contact between the customer and the company -- which could include the company's website, telephone, live chat, direct mail, marketing materials and social media. CRM systems can also give customer-facing staff detailed information on customers' personal information, purchase history, buying preferences and concerns.

Keywords - Customer, Management, Banking sector, E-CRM.

Introduction:

Current Status of e-CRM in Indian Banks:

Internet has enabled banking at the click of the mouse. At present there are five functional categories for online banking sites – on line brochure centre, interactive bank, e-mails, calculations and cyber banks, which offer customers access to account information, inter-branch funds transfer and utility bill payments. Banks have tied up with service providers in telecom and power sectors like MTNL, BSES and cellular service providers for allowing their customers to make bill payments online. In India, new private sector banks like ICICI Bank, HDFC Bank, Global Trust Bank and UTI Bank, have taken the lead in e-banking. Among the foreign banks, Citibank, has noticeable presence, while others like Federal Bank, HSBC Bank, Deutsche Bank and ABN Amro Bank, are moving towards becoming big players in e-banking. Even the state run banks like SBI and Union Bank of India have realised the advantages of such services.

ICICI Bank, the first bank to offer e-banking services in India has more than one lakh regular internet user accounts, of which more than 25 percent are of NRIs. The bank has viewed advanced information technology as a managerial and competitive tool and has tried to harness technology to the maximum possible extent to deliver superior customer services.

The Bank has emerged leader in B2B and B2C initiatives. B2B solutions (i-payments) aim at facilitating online supply-chain management to it corporate clients by linking them with their suppliers and dealers in a closed business loop. All members in this loop are required to maintain the account with the bank. This product has gained considerable market acceptance and the bank has already entered into memorandum of understanding with over 100 large Indian companies.

The Bank became the first bank in India to introduce utility bill payment through Internet. Bank has entered into tie-ups with leading telecom companies such as MTNL, Tata teleservices, VSNL and cellular operators such as BPL Mobile, Airtel and Usha Martin. Tie-ups have been established with BEST & BSES for electricity payment in Mumbai. The bank with its net banking service called 'Infinity' goes a step forward by allowing the account holder to transfer fund into another person's account with the bank. Also one can intimate about the loss of an ATM card over the net when using Infinity. Corporate sector can issue letter of credit and make inquiries regarding bills sent for collection via this service. It also provides facility for nicknaming all accounts to avoid remarking lengthy accounts number.

UTI bank has tied up with Cosmat Max, to create a communication network for its customers. The network will have VSAT terminals at strategic locations, which will help in ATM servicing and internal management information system. The bank has signed a memorandum of understanding with equitymaster.com for e-brokering activities of the site. This will enable the bank to leverage its database for e-commerce and other initiatives with data-warehousing and data-mining, where information of the customer spending habits will be used to sell other co-related products like credit cards.

HDFC Bank has, for the first time in India made the e-shopping experience secure online and

real time with the launch of its payment gateway. This will allow any Visa/Master credit card holder anywhere in the world to make payments for global services over the Internet.

The bank has tied up with 15 portals and is in talk with several others to offer secure business to customer e-com, credit card transactions. The first secure, on-line and realtime e-com. credit card transaction in the country was done on the Easy.2 shoppe.com shopping mall, enabled by HDFC bank on a Visa card, heralding the launch of the payment gateway. HDFC Bank also offers a direct debit option whereby its customer can pay for the goods or services by a secure password enabled transfer of funds from their account to the merchant account.

Review of Literature:

Kamath in his thesis entitled "Marketing of bank services with special reference to branches in Bombay city of syndicate bank" has concluded that quicker and better service offered by bank will be the most important variable in attracting and retaining customer.

S.G Shah in his article has stated that quality of customer service in bank has to very sink to very low and poor levels because of two vastly different reasons. The first is that even the simple routine service have broken down. The second area in which customer service is lagging is that of special situation.

T.S Ravisankar in his study "Marketing strategies and planning for business growth in banks stressed that the marketing plan for banking service be supported by appropriate marketing strategies. He suggests that the marketing strategy for banks must be oriented to customer – current and potential.

John Brooks former president and chairman of the council of the charted institute of Bankers, London states "Customer care is emerging as a critical factor in the banking industry and bankers are fully conscious of the need for attaining international standard for service".

Dr. B.C. Saraswathy in her article has stated that the mail objectives of CRM are building long term, sustaining relations with customers by delivering superior customer value and satisfaction. Instead of trying to maximize profit for each every transaction, CRM focuses on maximizing profits over the lifetime value of customers. Undoubtedly, CRM is a potential tool in sustaining and boosting sales in this era of hyper competitive world.

Objectives of the Study:

1) To examine the opinion of the customers as to CRM of the banks with respect to service quality management.

2) To analysis the opinion of the customers as to CRM of the banks with respect to

customer interaction management.

   3) To study the opinion of the customers as to CRM of the banks with respect to customer retention management.

E-CRM Techniques used by Banks in India:

Banks leveraging technology can develop innovative customer solutions to attain growth with profitability within the framework of sound risk-management practices. Technosavvy banks are tapping into online services to initiate a new era in relationship management to create one to one relationships as well as one too many relationships to enhance their competitive advantage.

Recent developments in critical areas of IT have changed the way banks are managing their customer relationships.

The following are some of the latest e-CRM techniques used by banks in offering new products and services to its customers.

Internet banking:

Internet is being used by banks to disseminate information to customers about bank's products and services through their websites. The banking services are provided through Net with convenience of ease and accessibility. Internet banking offers many benefits to the banks viz. vast reach, reduced transaction costs, direct marketing and cross selling, build bank's brand, etc. It also offers benefits to customers' viz. reduced cost, convenience, banking with the bank and not the branch, speed, better cash management, etc. The new private sector banks – ICICI Bank, HDFC Bank, UTI Bank and the Global Trust Bank have taken the lead in Net Banking.

Data Warehousing and Data Mining:

This technique is used to develop and use customer data to check their profile, retention and loyalty patterns. They provide valuable inputs for retaining customers and developing products and services for the future.

ATMs:

At present installed number of ATMs in the country is 1800, which is likely to be more than 4000 by next year. Most of the demand for this technology is coming from State owned banks. Until now, ATM services have been confined to deposits and withdrawal from bank accounts by customers. The growth in ATMs has been fuelled by a race among banks to expand their customer base by going in for more value added services (bill payments and ticketing services) on these machines.

Telebanking or Mobile banking:

These services empower the customer with an instant access to routine queries and

transaction or check bank balances.

Computerized decision support system:
This helps the banks in applying optimization techniques in functional areas such as, asset–liability management, optimization of investment portfolios and asset portfolios through linear programming. This is a practical tool which helps the bank managers and customers in optimizing investment decisions.

E-mail
Banks can maintain the list of its best customers and inform these members through Email the various services and schemes offered by the bank. These days this is considered as one of the cheapest and effective means of communication.

Computer networking
Networking between the branches of divisional, regional, zonal and head office of banks provide access to customer data base from the executive desk. This will integrate the front-office applications with back-office requirements, thus generating MIS for branch managers and executives at the different controlling offices including Head office for accurate, speedy and cost-effective customer services.

Customer smart cards
These cards are issued to key customers which carries all the relevant information, details of previous and repeat purchases, to make it convenient for the customers to recall and for the banks to keep a track of the behavioural and purchase trends. Utilities like BEST in Mumbai are already using smart cards for ticketing in its luxury buses.

Analytical CRM
Analytical CRM aims at storing, analyzing and applying the knowledge about ways to approach customers, typically using data mining. Analyzing customer relationships from a lifetime perspective is critical for success.
The Data Monitors report titled "Analytical CRM," forecasts that global enterprise investment in analytical CRM will grow from an estimated $2.3 billion today to more than $3 billion in 2009. By employing analytical CRM analytics, businesses stand to gain a fuller understanding of their customers in order to serve them better, thus increasing customer longevity and generating more profit. Analytical CRM is the active collection, concentration and analysis of data gathered about the customer and his interactions with the business.

Widening the relationship with customers by acquiring new and profitable customers
To widen your customer relationships, Data mining can answer questions like:
• Which kind of customers would you like to acquire?
• Which kind of customers will drive your growth in future?
• Which new customers are likely to be interested in your products?

Customer acquisition is the number one issue for small company marketers. As corporations increase budgets to attract and obtain new customers, data mining becomes a critical tool for profiling good customers, performing market segmentation, and improving the results of direct-marketing campaigns. The number of campaigns that can be managed in a given time period is often much lower than what the business demands. Data mining solves these problems by putting tools in the hands of the marketers driving these campaigns -- it keeps control where the need is. As a result, marketers can be much more responsive to creating new campaigns and can implement a direct feedback loop to improve their efforts on a regular basis.

Lengthening the relationship with your top customers by targeting existing resources and strengthening the foundation of those relationships

To lengthen your customer relationships, Data mining can answer these questions:
• Which customers in particular do you want to keep?
• Which customers will drive most of your profits?
• Which customers might switch to your competitors and why?
• Which customers are dissatisfied with your services and products?

Customer retention:

This retention is also a major issue for all businesses. One Harvard study suggests: "Reducing customer attrition by 5 per cent can double a company's profits." Given the high Cost of finding new customers, a key issue for many organisations is customer retention. Often referred to as chum, customer turnover is a difficult problem to manage because it usually occurs without warning. For example, when a customer calls their long-distance carrier to have their account closed in favour of a competitor, the telecommunications provider knows only at that moment that their valued customer is churning. Once they are predisposed to leave, it is unlikely that the customer can be convinced to stay.

Data mining introduces a major paradigm shift to churn management by adding predictive capabilities. Data-mining tools can be used to model the patterns of past churning customers by examining billing histories, demographic information, and other customer data. Then, the same model can be used to predict other good customers who are likely to leave in the near future. Armed with this information, the marketer can proactively instigate campaigns to keep their customer, rather than fighting to get them back later.

Deepening the relationship with customers by transforming minor customers into highly profitable ones.

Intensifying and deepening customer relationships also require Data mining tools to answer essential questions, such as:
• With which customers can you increase the share of wallet?
• Which products and services interest a particular customer?
• Which products are typically bought together? Which cross selling opportunities should you consider?

Goals & Objectives of e-CRM

Goals

- *Reduce* : Costs of marketing
- *Improve* :
  - Accuracy and relevancy of recommendations
  - Customer satisfaction
- *Increase* :
  - Conversion rate, i.e., Turn browsers into buyers
  - Customer retention and frequency
  - Order size
  - customer response
  - competitiveness through differentiation
  - Profitability.

Objectives

- To provide good customer service
- To discover new customers
- To enhance customer loyalty/retention
- To help sales staff close deals faster
- To simplify marketing and sales processes.
- To reduce the costs (like administrative)
- To increase the goodwill profitability etc. by increasing the customer satisfaction level.

Cross-selling:

Growing a customer's value is yet another critical marketing function. The notion of increasing customer share is a key to most organisations. Unlike increasing market share, which focuses on obtaining a greater number of customers, increasing customer share refers to getting more of the dollars each individual customer has to spend. Two common methods for this are customer-based product-launch campaigns, and cross-selling.

Riddled with as much guesswork and gut instinct as they are today, these methods are often not as effective as they could be. Data-mining tools improve product launches to an installed base, as well as cross-selling activities by helping marketers understand which customers are most likely to purchase new products, and which products are typically purchased together. This results in a more focused effort to customers ready to spend additional dollars.

Personalization provides relevant and specific recommendations for individuals, taking into account personal preferences, demographics, and behavior. Personalization permits delivering recommendations with the touch and timing of someone who knows you well.

Personalization uses data mining technology to analyze the large amounts of data gathered from Web sites and other applications to find patterns within purchase, demographic, ratings, and navigational data.

Personalization collects customer profile data and uses them to build predictive models that support personalized recommendations. The underlying rules derived through data mining can be more sophisticated and thus yield better results than the other techniques noted above.

For example, "a person who has clicked links x and y and who has demographic characteristics a and b is likely to buy".

We have explored the CRM analytics with the following example of ICICI Bank, where they use data mining as tool for building and managing customer relationship.

In India, ICICI Bank is using the techniques of data mining to acquire new customers. These customers may be totally new to ICICI or in most of the cases; ICICI Bank taps their customer base and offers them various other services. For example: If you are having an ICICI Bank Account, you have special privilege offers from4 the bank for new services like Home Loans, Car Loans, Credit Cards, Personal Loans and others. ICICI Bank has also got Loan on Phone Scheme and Pre Approved Offers into each of their services; so that the relationship with the customer can not only be maintained, but will also make them more loyal of offering new services. Ultimately in the long run, the business of ICICI Bank will grow manifold by using the data mining techniques.

Data mining as a tool for CRM:

The first analytical step in data mining data description– for example, summary of statistical attributes (such as means and standard deviations), may represented by using charts and graphs, and look at the distribution of values of the fields in your data.

One needs to build a predictive model based on patterns determined from known results, and then test that model on results outside the original sample. A good model should never be confused with reality, but it can be a useful guide to understanding the business.

Data mining can be used for both classification and regression problems. In classification problems you're predicting what category something will fall into-for example, whether a person will be a good credit risk or not, or which of several offers someone is most likely to accept. In regression problems is like predicting a number such as the probability that a person will respond to an offer.

In CRM, data mining is frequently used to assign a score to a particular customer or prospect indicating the likelihood that the individual will behave in the way organization wants. For example, a score could measure the propensity to respond to a particular offer or to switch to a competitor's product. It is also frequently used to identify a set of attributes (called a profile) that segments customers into groups with similar behaviors, such as buying a particular product.

A special type of classification can recommend items based on similar interests held by groups of customers. This is sometimes called collaborative filtering.

Conclusion:

Today, many businesses such as banks, insurance companies, and other service providers realize the importance of Customer Relationship Management (CRM) and its potential to help them acquire new customers retain existing ones and maximize their lifetime value. At this point, close relationship with customers will require a strong coordination between IT and marketing departments to provide a long-term retention of selected customers. This paper deals with the role of Customer Relationship Management in banking

sector and the need for Customer Relationship Management to increase customer value by using some analytical methods in CRM applications.

The present study provides some guidelines for customer relationship management satisfied customers are loyal customer, their retention rate is much higher and so is their overall profitability for the bank. CRM offers the most holistic route for banks to enhance customer relationships. Banks can enhance customer retention, profitability and loyalty and get an increased share of banks from their customers. Banks need to embrace CRM as a principle and adopt a strategy for managing customer relationships that effectively addresses three key areas, customers, processes and technology. Finally banks should take actions such as recognition and delegation of work, freedom to handle customer's grievances and management's approval to take decision according to the situations.

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