TECHNOLOGY AND CUSTOMER RELATIONSHIPS MANAGEMENT IN BANKING INDUSTRY

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ABSTRACT

Nowadays, 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.

Use of modern technology in urban areas will also go long way for customer relationships in banking services. Technology based service like credit card, debit card, ATM, anywhere banking, internet banking, and mobile banking are necessary for urban areas. This is because it enables customers to perform banking transactions at their convenience. Business hours of a bank are also an important factor for urban banking. Banking services for long hours, say 12 hours and seven days a week is preferred by urban customers. It is suitable to urban life style.

Keywords : Marketing strategies, Banks, Technology, computerization, networking of branches, Banking system, Customer Relationship Management, competitive advantage, valuable resources.

INTRODUCTION

Changing customer expectations, advances in technology and globalization of the economy are the new dimensions that have brought growing pressures on banks in terms of CRM. It is imperative that to a detailed study is undertaken to find out the existing ways of doing business by banks, their present marketing tech and to formulate enhanced CRM for the better performance of banking industry. The study results will be helpful in improving the effectiveness of internal marketing and to find out whether customization or standardization will be suitable for the present scenario in banking sector.

There is evidence of this trend in every industry. In the financial industry, banks have embraced customer relationship marketing. They offer packaged checking, loan, mortgage and investment account solutions based on usage patterns. Customers that bank on the Internet, via telephone, debit card and ATM might pay more for excess check usage and less or nothing at all in monthly fees. People who commonly use traditional teller services for their banking needs and rarely or never bank via telephone or online are offered solutions that provide low-priced or unlimited check writing with a more substantial monthly fee or a high per- transaction cost.

Organizations must nurture their client relationships to ensure customer satisfaction and subsequent loyalty. While this might sound like considerably more work, it is much more costly long term to focus solely on winning customers than it is to concentrate on keeping them. In the end, the cost of doing business is less because your customers are reached more successfully. Companies are able to target the right customer with the most appropriate solution, ensuring the most profitable promotions and highest propensity to buy.

REVIEW OF LITERATURE

1.Parasuraman A.,(2000) made a study on “superior customer service and marketing Excellence: Two sides of the same success coin”. The first half of the article studied the nature and determination of high quality customer service and the second half of the article made a study as to why superior customer service and marketing excellence are two faces of the same success coin. The researches discussed the meaning and measurement of service quality and offers managerial guidelines for delivering superior service to customer. He argued for broadening the scope of marketing to include the delivery of customer service as an integral component and a judicious blend of conventional marketing and superior customer service is the best receipe for sustained market success.

2.Parimal Vyas(2000) made a study on “Measurement of customer satisfaction: A study of banking services”. This paper attempted at studying empirically customer satisfaction with the services provided by different banks and also analysed the responses of customer towards the actual time taken by banks to complete the banking transaction. The finding of the study revealed that nationalised banks and co-operative banks need to improve on reducing the overall time taken to complete banking transaction, comparatively, the private and foreign banks took much less time for completing their transactions. Nationalised and co-operative banks need to increase the use of information technology and CRM to deliver standardized customer specific banks service to its targeted customer.

3.Anjana Grewal (2000) in her article “winning strategies and processes for effective CRM in banking and financial services”, presented a case study on relationship management practices developed in a leading foreign bank in India in the early nineties. It was a practical paper and provided insight into what made it happen, the developed model outlined ten stages for effective customer relationship practices in financial services. These span across defining customer relationship, understanding transaction behaviour and business volumes for different customer. Developing a customer profitability model, creating the organization structure to support relationship management practices, developing training programs, relationship pricing continuously evaluating the role of relationship managers with emerging technology are the new trends expected of the relationship role.

4.Sharlesh and Mohan(2000) carried out a study to gain an insight into one current status of CRM. In Indian services firms and their relationship management practices and programs being implemented by them. The research revealed that aspects such as business processes, information technology, employee empowerment, quality assurance and customer knowledge strategies should be made more customer-centric.

5.Aravind Brahme(2000) in his article "customer complaints" has stated that customer complaints are a universal phenomenon and a service industry like banking is no exception. Handling of complaints should be considered as a core activity and viewed as one of the key functions. He draws a clear distinction between verbal and written complaints and also the way to deal with both of them. The study elaborates on as to why organisations lose customer and states that 68% of the customers are lost due to short comings in customer service. A suggestion regarding the complaint handling cell or unit is made and characteristics of a complaint system have been enlisted by the author. He has proposed organizing of workshops on complaints handling for the bank staff to develop an awareness and positive approach.

6.Parimal Vyas(2004) made a study on a "Measurement of customer satisfaction on IT adoption in banking services". This study was an empirical study based on descriptive research design to measure customer satisfaction considering the prevalent state of IT adoption among selected branch of nationalized banks, private banks, co-operative bank and foreign banks located at baroda. The findings of the study revealed that there was an effective implementation of E-Banking services in the case of private banks and foreign bank whereas nationalised bank were found to have a lessor degree of computerization.

CUSTOMER RELATIONSHIP MANAGEMENT: THE CONCEPT

Customer Relationship Management is the establishment, development, maintenance and optimization of long-term mutually valuable relationships between consumers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy, people, technology and business processes.

At the heart of a perfect, CRM strategy is the creation of mutual value for all the parties involved in the business process. It is about creating a sustainable competitive advantage by being the best at understanding, communicating, and delivering, and developing existing customer relationships in addition to creating and keeping new customers. So the concept of product life cycle is giving way to the concept of customer life cycle focusing on the development of products and services that anticipate the future need of the existing customers and creating additional services that extend existing customer relationships beyond transactions.

NEED OF CRM IN THE BANKING INDUSTRY

Over time, retail bank customers tend to increase their holding of the other products from across the range of financial products / services available.

* Long-term customers are more likely to become a referral source.

** The longer a relationship continues, the better a bank can understand the customer and his/her needs & preferences, and so greater the opportunity to tailor products and services and cross-sell the product / service range.

*** Customers in long-term relationships are more comfortable with the service, the organization, methods and procedures. This helps reduce operating cost and costs arising out of customer error.

With increased number of banks, products and services and practically nil switching costs, customers are easily switching banks whenever they find better services and products. Banks are finding it tough to get new customers, and more importantly, retain existing customers.

According to a research by Reichheld and Sasser in the Harvard Business Review, 5% increase in customer retention can increase profitability by 35% in banking business, 50% in insurance and brokerage, and 125% in the consumer credit card market. Therefore, banks are now stressing on retaining customers and increasing market share.

TECHNOLOGY AND CRM IN BANKS

Customer Relationship Management (CRM) in the Indian banking system is fundamental to building a customer-centric organization. CRM systems link customer data into a single and logical customer repository. CRM in banking is a key element that allows a bank to develop its customer base and sales capacity. The goal of CRM is to manage all aspects of customer interactions in a manner that enables banks to maximize profitability from every customer. Increasing competition, deregulation, and the internet have all contributed to the increase in customer power. Customers, faced with an increasing array of banking products and services, are expecting more from banks in terms of customized offerings, attractive returns, ease of access, and transparency in dealings. Retaining customers is a major concern for banking institutions which underscores the importance of CRM. Banks can turn customer relationship into a key competitive advantage through strategic development across a broad spectrum.

The key to successfully making this switch in marketing focus is altering the way in which organizations analyze their customer data. Most of the data organizations need in order to yield integrated, accurate customer information comes directly from the customers themselves: their demographics, their purchasing patterns, their likes and dislikes, their means and methods of purchasing, their buying history. The good news is most organizations are likely to have most of this data. The bad news is that most of this information is in bits and pieces and lives in disparate *data* sources across an organization. To compound the problem, those systems do not speak the same language; and many organizations have no means of efficiently consolidating and analyzing the data into meaningful decision support information. This may cause organizations to think that from a marketing or customer relationship management perspective, they are back at square one. That is not the case. Knowing that the data is within reach is the first step to the solution. Next, it must be found, run through the data quality process and integrated based on business rules – then it can be analyzed.

Undoubtedly, an organization that is not using information technology to understand and serve its customers better will be out- performed, out-sold, out-smarted and probably out of business before the end of the next decade. Competition within a global marketplace dictates that companies distinguish themselves from the competition through their customer relationships. It is impossible for employees to provide the level of service customers expect if information about them is scattered throughout an organization or is just plain unavailable. Good customer information architecture can effectively integrate data from many sources (e.g., financial, claims, customer and call center systems).

For example, In Banking systems – credit card, installment loan, investments, trust account, mortgage, etc. – are isolated within each division, how can that institution leverage its customer information? The financial institution with fragmented customer information is bombarding customers with redundant, confusing propositions that often don't apply to their individual situations. Today's customers want to be able to glance at their entire financial portfolio and see how they can optimize their financial future. The financial industry has responded to this with consolidated monthly statements and e-commerce solutions that give clients real time access to their portfolios. Furthermore, financial institutions that enable customers' access to personal account information, loan payment and money managing services online will have a clear advantage over their competitors who do not offer sophisticated, e-commerce solutions.

Delivery channels provide sophisticated analysis tools and customer interfaces. When the dust settles, the clear market leaders will be the organizations taking advantage of the Internet age by implementing e-commerce solutions on top of robust analytical solutions that are supported by data warehousing technology.

Decision support systems are used for analysis of customer information. Decision support systems (supported by the data warehouse) are the tools that enable decision-makers to analyze their data. These systems are typically functionally specific (i.e., product performance analysis, risk analysis, call pattern analysis, etc.).

Developing and implementing an enterprise customer relationship management solution, facilitates business communication by collecting and combining customer-driven data into an easily accessible operational data store and data warehouse that makes information available to the enterprise and, potentially, to customers accessing organizations via the Internet. The financial services industry has been a leading adopter of leveraging the vast amounts of customer information locked in legacy systems. Financial institutions have various goals and objectives. Some organizations want to maximize their cross-selling opportunities, understand customer buying patterns and demographics, and analyze loan performance. Others want to better increase the effectiveness of their customer service and conduct risk analysis. Mergers and acquisitions often present the need to integrate financial, claims, customer and application data from companies that have merged. Some companies want to assess their credit risk, better understand market segmentation and more effectively detect fraud. Some organizations' main goal is to service their customers better. For example, they want to conduct credit line analysis so they can offer better consolidation rates and/or raise or lower credit lines. Other organizations want to streamline and maximize their marketing efforts. All of these business issues can be solved and objectives can be reached by using and analyzing information appropriately. Although the initial investment in this technology is expensive, companies must focus on the long-term benefits.

HOW TO ENHANCE THE TECHNIQUES OF CRM?

Response modeling

Based on demographic attributes and purchasing history, which consumers are most likely to respond to a particular product or advertising campaign? This can include buying patterns, service opportunities or shifts in behavior.

Customer lifetime valuation

Based on the number of repeat purchases, dollars spent or longevity, which consumers are likely to become my most valuable customers?

Customer segmentation

What are the characteristics common to my customer base, and do they fall into identifiable groups?

Cross-selling

Given data on whether a customer has purchased product A, B and C, which ones are likely to purchase product X?

Marketing programs

These programs include relationship management, thank you programs, incentive programs, retention programs, etc.

The support systems of the CRM architecture facilitate information sharing that increases productivity and profitability, untangling the web that once blocked the transfer of information. CRM systems should support decision support teams analyzing the following:

Predictive modeling

To determine how to market the right product to the right person at the right price and the right time (fact-based decisioning).

Customer, product and business line profitability

To identify the customer, product, organization and business line profitability bottom line.

Risk management

Risk management includes management of these risk factors: market, interest, reputation, strategic, compliance, transactional, credit, systems and operational.

Event- triggered marketing and selling.

To Deliver customer/product- level information to individuals in the sales process based on predefined parameters established in predictive modeling and other processes.

Scoring and decisioning

Cost, pricing and fee analysis

To make business decisions based on empirically derived statistical information and judgmental factors (loan to value ratio). This also includes predictive modeling.

Cost, pricing and fee analysis

To match appropriate revenues with resources and expenses used in generating those revenues.

Product development and creation

To determine what products will sell; define the distinctive product characteristics and pricing.

Target marketing

Selling the right product to the right person at the right time at the appropriate return (subjective-based decisioning).

Sales execution and tracking

To Collect information pertaining to who sells what product to whom, when and where.

Credit card behavior analysis.

To track, at a segment level, all account management strategies and tactics. Specific focus on utilization, delinquency (charge off and charge back) and change in balance (profitability, payment, etc.).

Forecasting/budgeting/tracking.

To quantify estimates of future business activities based upon historical data, predictive models and economic forecasts within a framework of corporate strategic goals.

Credit card tracking and analysis.

To track and validate business case assumptions at actionable levels of segmentation/detail.

Competitive and product infor-mation delivery.

To deliver competitive and product information to enhance the sales process and retain customers. Included is the process of triggering and responding to customer requests, as well as delivering information to customers, customer service representatives and sales persons.

Collection and recovery

To take action to minimize loss while retaining customers and providing information to the front-end process. This includes resolving customer problems and helping customers find ways to pay.

Bankruptcy and loss analysis

To identify characteristics, events or attributes that would be present when a bankruptcy occurs on a loan or line relationship. Analyze to determine who is likely to declare bankruptcy or charge off.

Distribution channel reporting

To deliver products and services that meet customer needs and add value.

Fraud analysis

To identify characteristics, events or attributes that would be present when fraud occurs on a loan or line relationship. Apply fraud actions to new marketing opportunities.

Advertising

To communicate product offerings with disclosure and allow customers to purchase.

Periodic credit review

To Analyze specific customer transactions in order to resolve issues. Non-modeled, detailed look at business, addressing issues of compliance, policy and regulatory issues at a customer or portfolio level.

Customers now demand service at their convenience. It is imperative that organizations make accessing its products and services as easy as possible. To achieve world-class results, organizations should enable their customers to have multiple access methods, such as phone, interactive voice response, Internet, ATM/kiosk, branch and mail; and the type of access should be linked to customer-segmented needs.

Toll-free access numbers should be provided to all customers. Companies must exemplify a single-image perspective by providing one number to call for all inquiries; and they should have a common architecture to support multiple channels, which maximizes system components and reusability and leverages existing systems. The sales and service philosophy needs to be one of "anytime, anywhere," resulting in high customer satisfaction. Many customers want the benefit of hassle-free, Web-based services – shopping, bill payment, investment account management, etc. Time continues to be an increasingly important consideration for many people, and those time-sensitive customers (a population that is growing exponentially) that potentially could be lost are now retained by tailoring solutions to their lifestyles.

CONCLUSION

Companies with effective CRM solutions know who their customers are and they know how to service them. Without integrated data, none of this is possible. Customer relationships remain the foundation of any organization's ability to achieve significant gains in productivity, profitability and competitiveness. Meeting ongoing customer needs is only possible when organizations can provide the right information to the right people at the right time. CRM allows them to do just that.

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