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A study on customer relationship management practices in banking sector with reference to selected banks in west Godavari District, AP

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Abstract

Driven by challenges on competition, rising customer expectation and shrinking margins, banks have been using technology to reduce cost. Apart from competitive environment, there has been deregulation as to rate of interest, technology intensive delivery channel like Internet Banking, Tele Banking, Mobile banking and Automated Teller Machines (ATMs) etc. have created a multiple choice to user of the bank. The banking business is becoming more and more complex with the changes emanating from the liberalization and globalization. For a new bank, customer creation is important, but an established bank it is the retention is much more efficient and cost effective mechanism.

CRM is a sound business strategy to identify the bank's most profitable customers and prospects, and devotes time and attention to expanding account relationships with Banking Industry in India has undergone a rapid changes followed by a series of fundamental developments. Those customers through individualized marketing, reprising, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses. Under this case study, a campaign management in a bank is conducted using data mining tasks such as dependency analysis, cluster profile analysis, concept description, deviation detection, and data visualization. Crucial business decisions with this campaign are made by extracting valid, previously unknown and ultimately comprehensible and actionable knowledge from large databases.

The research work is an empirical study intended to explore the technological revolution that the commercial banks witnessed and how far it has benefited banks to build better customer relationship management (CRM) services of public sector banks with private sector banks. Furthermore, a comparison would also be made to find out the expectations of the customers from the banking stream and on various technical and structural fronts.

Keywords: Customer, management, banking sector, CRM

Introduction

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. CRM helps the organization to identify customer needs and re-focus its strategy to serve him better. It helps the company to achieve business growth through development of competitive edge excellence. Some of the major issues it addresses are:

- Identify customer needs.
- Help in rediscovering the customer and understanding him.
- Identify untapped business potential.
- Identify fields requiring new technology and development.
- Identify strong and weak points of supplier.
- Provide feedback to the supplier on his total operation.
- Provide feedback and new information on competitors.
- Benchmarking to achieve global excellence.

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- Details on the aspects on which customer is happy with the supplier and on those where he feels that improvement needs to be incorporated.
- Action plan to make organization customer-centric.

CRM helps in providing uniqueness to the organization to help it build up differentiation from its competitors. This is achieved through:

- Comprehensive approach to meet the customer's specific needs.
- To build up customer focused operating environment and culture.
- To prepare and implement result oriented action plan.
- Continuous up gradation of competencies to provide enhanced benefits and satisfaction to customer.

CRM is a strategic business and process issue. The principles of CRM are developed out of market/customer needs, methodology involving the understanding of need based segments, the development of segment based proposition and the management of delivery against those propositions to maximize the customer value. CRM is the understanding of this segmental relationship and the ability to generate action plan to help the staff working in different segments to devise a plan to maximize business and profits throughout the customer lifecycle. CRM maximizes the values of company's customer portfolio through convergence of marketing, service and sales.

CRM Objectives in Banking Sector

The idea of CRM is that it helps businesses use technology and human resources gain insight into the behavior of customers and the value of those customers. If it works as hoped, a business can: provide better customer service, make call centers more efficient, cross sell products more effectively, help sales staff close deals faster, simplify marketing and sales processes, discover new customers, and increase customer revenues. It doesn't happen by simply buying software and installing it. For CRM to be truly effective, an organization must first decide what kind of customer information it is looking for and it must decide what it intends to do with that information. For example, many financial institutions keep track of customers' life stages in order to market appropriate banking products like mortgages or IRAs to them at the right time to fit their needs. Next, the organization must look into all of the different ways information about customers comes into a business, where and how this data is stored and how it is currently used. One company, for instance, may interact with customers in a myriad of different ways including mail campaigns, Web sites, brick-and-mortar stores, call centers, mobile sales force staff and marketing and advertising efforts. Solid CRM systems link up each of these points. This collected data flows between operational systems (like sales and inventory systems) and analytical systems that can help sort through these records for patterns. Company analysts can then comb through the data to obtain a holistic view of each customer and pinpoint areas where better services are needed. In CRM projects, following data should be collected to run process engine: 1) Responses to campaigns, 2) Shipping and fulfilment dates, 3) Sales and purchase data, 4) Account information, 5) Web registration data, 6) Service and support records, 7) Demographic data, 8) Web sales data.

CRM Development

To be prepared to the changing economic conditions and, in particular, to a rapidly decreasing inflation rate scenario Garanti Bank has started timely to focus on developing a customer relationship management (CRM) system. The total number of customers is presently around two millions, but an increase to roughly three millions is 3 foreseen as merging with Osmanli Bank and Kofertz bank are achieved and the present growth targets are reached. The importance for the bank of managing the relationships with their customers has been the drive of the joint projects that have been developed with IBM in the last three years. During the projects a number of crucial technological and architecture choices have been made to implement the entire process. Realizing the importance of customer information availability the first of these projects has focused on the problem of routinely collecting and cleansing data. The project has been undertaken by the bank with the spirit that has characterized the whole CRM development. The project has promoted a massive involvement of the branches, namely of the portfolio managers and campaigns have been launched for popularizing among branch staff the importance of gathering and maintaining reliable customer data. Another set of methods have been tested for customer not included in portfolios (pool customers), such as mailing or distributing questionnaires in the branches or using automatic teller machines (ATM) and the call center. Methods for data checking and testing have been developed to be routinely employed by the bank's staff. Results obtained are very good: for portfolio customers data available are respectively 98% for the commercial ones and 85% for the retail ones. For pool customers availability goes down to 65%: this is a well-known phenomenon due to the loose relationship with the latter customers.

Objectives of the Study

1. To review the literature on Customer relationship management in banking sector.
2. To identify the key customer focus in selected public sector banks
3. To identify the role of organization to achieve better CRM activity in selected public sector banks.
4. To identify the knowledge management in selected public sector banks.
5. To identify the CRM supporting technology in selected public sector banks.
6. To identify customer satisfaction level towards CRM tools by selected public sector banks.
7. To offer suggestions to improve CRM activity in selected public sector banks.

Hypothesis for the Present Study

1. Bankers establish their branches nearer to customers; Customers prefer nearby branches and satisfied with the location of the bank.
2. Branch managers well maintained interior and exterior of the bank to attract customers; Customers satisfied with them.
3. Branch managers arranged layout and furniture properly to attract customers; Customers satisfied with proper layout and furniture of the bank.
4. Branch managers arranged proper drinking water facility and seating arrangements to attract customers; Customers satisfied with them.

5. Banker arranged customers with customized products and services; Customers are satisfied with customized products of the bank, and
6. Bank managers strengthen emotional bonds with customers; Customers are intended to maintain emotional bonds with banker.
7. Bank managers use the relationship pricing strategies to attract customers; customers are satisfied with the relationship pricing strategies.
8. Bank managers do co-branding affinity programs to increase the value of customers; customers are satisfied with co-branding affinity programs.
9. Bank managers use the power of word of mouth by using Referral Marketing programs; customers are satisfied with referral marketing programs.
10. Bank does cross selling of products and services to increase customer share, customers are satisfied with cross selling of products and services.
11. Bank commits time and resources in managing customer relationships; customers are satisfied with commitment of the banker to time and resources.
12. Bank's technology and systems are designed to make it easy for customers to do business; customers are satisfied with banker technology and systems.
13. Bank provides increased customer convenience using a variety of distribution channels; customers are satisfied with effectiveness of distribution channels.
14. Bank frontline employees are encouraged and empowered to exceed customer expectations; customers are satisfied with services of frontline employees.
15. Bankers take customer feedback seriously and reply to them, customers are satisfied with customer feedback process of the bank.
16. Bank has effective customer recovery strategies including guarantees for service failures; customers are satisfied with banker recovery strategies.
17. Bank use information from customers to design or improve products and services, customers are satisfied with outcome/innovative products from the banker by using feedback of customers.
18. Bank analyses the causes of customer defection through exit interviews and lost customer surveys with the aim to win back customers who have strong profit potential; customers are satisfied with exit interviews and customer surveys.
19. Bank do customer segmentation using Customer Lifetime Value related metrics; customers are satisfied with customer segmentation programs.
20. Bank has a process in place to obtain and validate customer's permission to interact with them through various channels; customers are satisfied with interaction of banker.
21. Bank has a well-developed privacy policy to ensure confidentiality of data collected from customers;

- customers are satisfied with privacy policy of the banker.
22. Bank uses technology to automate marketing sales and service functions; customers are satisfied with automated marketing sales and service functions.
23. Bank provides easy Accounting opening services customers are satisfied with easy account opening services.
24. Bank provides excellent Debit and Credit cards; customers are satisfied with Debit and Credit cards services.
25. Bank provides uninterrupted and qualitative Net-banking facility; customers are satisfied with Net-banking facility.
26. Bank provides excellent Tele-banking facility; customers are satisfied with Tele-banking facility.
27. Bank provides excellent Electronic Fund Transfer and Electronic Clearing System; customers are satisfied with them.
28. Bank provides efficient Help-desk Services; customers are satisfied with Help-desk services.
29. Bank provides Excellent ATM facility; customers are satisfied with ATM facility.
30. Bank provides Anytime Anywhere Banking facility; customers are satisfied with it.
31. Bank provides Excellent Call center services; customers are satisfied with call center services.

Research Methodology

Sources of Data

Present study is a descriptive study, since the data needed for the present study are primary and related to the opinions of managers in the selected public sector banks and customers from public sector banks; questionnaire method was employed for the collection of data. Questionnaires were administered to the branch managers of the selected banks and to the customers were personally approached to discuss and gather their views.

Secondary data such as, Performance details of banks, Customer Relationship Management practices implemented by various banks worldwide, etc., was collected from banking journals, magazines, RBI reports, Internet.

Target Population

Target population for the present study are Bank Managers and Customers from each selected public sector bank.

Sample

Convenient sample method is used for the present study. Sample consist total 90 bank managers and 450 customers from total 16 public sector banks in Krishna district. From each public sector bank managers and customers are selected from various branches according to researcher convenience as shown in table 1

Table 1: Sample for the present study

S. No	Name of the bank	Total Branches	No. of Branch Managers selected	No. of Customers selected
1	Andhra bank	92	15	75
2	Bank of Baroda	7	1	5
3	Bank of India	12	5	25
4	Canara bank	11	5	25
5	Central bank of India	7	3	15
6	Corporation bank	3	1	5
7	Indian bank	19	5	25

8	Indian overseas bank	5	2	10
9	Punjab national bank	2	1	5
10	State bank of Hyderabad	12	5	25
11	State bank of India	51	10	50
12	Syndicate bank	8	4	20
13	Uco bank	2	1	5
14	Union bank of India	11	5	55
15	Vijaya bank	9	5	25
16	Allahabad bank		2	10
	Total	251	70	350

Questionnaire

Questionnaire includes various statements related to Customer relationship management includes customer focus, organization and its support, knowledge management and technology. Five point likkert scales were used to examine the opinions of managers as well as customers.

Statistical Tools Used

SPSS (Statistical Package for Social Sciences) is used for analyzing the data. Percentages are used to present the data. Chi-square tests are used to prove the Hypotheses.

Reasons for Selecting Specific Banks in Krishna District

Following are the reasons for selecting specific banking units in Krishna district:

1. Krishna is Indian rice bowl being prominent as a commercial town would be dealing with heterogeneous customers, which enabled the researcher to obtain an array of opinions;
2. Proximity to the researcher;
3. Native district of the researcher;
4. Familiarity with the banking staff.

Limitations of the Study

Limitations of the study are explained below:

1. The concept of Customer Relationship Management being in its infancy stage in Indian banking scenario, bankers tended to be hostile in expressing their unbiased opinions.
2. Customers were not really aware of these practices; hence their opinions were subjective.
3. Time and financial constraints have restricted the researcher to select a larger sample.

Findings and Suggestions

1. For the location of the Bank, The calculated chi-square value for opinion of bank managers is 36.429; the obtained chi-square value is greater than the table value hence hypothesis accepted means bank managers strongly agreed that bank branches are nearer to customers, frequency table shows 67 percent agreed it.
2. For the location of the bank calculated chi-square value for opinion of respondent customers is 343.686; the obtained chi-square value is greater than the table value so that Hypothesis is accepted means customers are satisfied with the location of the bank, frequency table shows 88 percent satisfied with the location of the bank.
3. Regarding interior and exterior the calculated chi-square value for opinion of bank managers the calculated chi-square value is 43.286; the obtained chi-square value is greater than the table value so that Hypothesis is accepted means bank managers agreed that they maintained well interior and exterior to attract customers, frequency table shows 75 percent agreed it.

4. For the interior and exterior of the bank the calculated chi-square value for opinion of respondent customers is 300.829; the obtained chi-square value is greater than the table value so that Hypothesis is accepted means customers are satisfied with interior and exterior of the bank. Frequency table shows 82 percent of the customers are satisfied with the interior and exterior of the bank.
5. For layout and furniture of the bank the calculated chi-square value for opinion of bank managers is 23.571; the obtained chi-square value is greater than the table value so that Hypothesis is accepted means bank managers properly maintains layout and furniture of the bank in the part of CRM, frequency table shows 60 percent bank managers agreed it.
6. For the layout and furniture the calculated chi-square value for opinion of respondent customers is 247.257; the obtained chi-square value is greater than the table value so that Hypothesis is accepted. It means customers are satisfied with the layout and furniture, frequency table indicates 79 percent are satisfied with the layout and furniture of the bank.
7. For proper drinking water facility and seating arrangements the calculated chi-square value for opinion of bank managers is 70.429; the obtained chi-square value is greater than the table value so that Hypothesis is accepted means bank managers agreed that they maintain proper drinking water facility and seating arrangements to attract customers, frequency table shows that 71 percent agreed.
8. For drinking water and seating arrangements in the Bank the calculated chi-square value for opinion of respondent customers is 204.914; the obtained chi-square value is greater than the table value hence Hypothesis is accepted means customers are satisfied with drinking water facility and seating arrangements in the bank, frequency table also shown 71 percent are satisfied with it.
9. For providing of customized products and services, the calculated chi-square value for opinion of bank managers is 10.286; the obtained chi-square value is greater than the table value hence Hypothesis is accepted means bank managers agreed that bank provides customized products and services to its customers; frequency table also shown 51 percent agreed it.
10. Regarding customized products and services of the bank, the calculated chi-square value is 211.457; the obtained chi-square value is greater than the table value hence Hypothesis is accepted means majority of customers are satisfied with customized products and services of the bank, frequency table shown it 75 percent are satisfied with customized products and services of the bank.

11. For emotional bonds with the customers the calculated chi-square value for opinion of bank managers is 36.571; the obtained chi-square value is greater than the table value hence Hypothesis is accepted means majority of the bank managers agreed that they maintain emotional bonds with the customers in the part of CRM activity; frequency table shown 71 percent agreed it.
12. Regarding emotional bonds the calculated chi-square value for opinion of respondent customers is 173.571; the obtained chi-square value is greater than the table value hence Hypothesis is accepted means majority of the customers are satisfied with the emotional bonds with the banker, frequency table also shown 69 percent are satisfied with emotional bonds with the banker.
13. For the relationship pricing strategies the calculated chi-square value for opinion of bank managers is 36.857; the obtained chi-square value is greater than the table value hence Hypothesis is accepted means bank managers agreed that they adopt relationship pricing strategies to attract customers; frequency table also shown 58 percent agreed it.

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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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