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Vibha Kumari
Research Scholar-Management
Department of Commerce and
Business Administration
Lalit Narayan Mithila
University, Darbhanga, Bihar,
India

Customer relationship management in Indian banking: An evaluation

Vibha Kumari

Abstract

The purpose of this paper is to develop a comprehensive integrated model which helps in explaining the impact of Customer Relationship Management (CRM) dimensions (complaint resolution, customer knowledge, and customer empowerment and customer orientation) on customer loyalty and competitive advantage of a bank. The study also explores the mediating role of customer loyalty in the relationship between CRM and competitive advantage in retail banking.

Keywords: Liberalisation, privatisation, organisations, Indian, banking, customer, relationship, CRM, services

Introduction

With unleashing of forces of competition and large-scale disintermediation in recent years following the policy of deregulation, liberalisation and privatisation and growing awareness of customers due to path breaking technological developments, Indian customers have become more finicky and sophisticated demanding better service and higher value and aspiring for personal care, continuous attention and involvement. Sensing the need for retaining the existing customers in highly competitive market in view of much higher costs involved in wresting new customers than those in servicing extant ones and also realising that losing a customer means more than losing a single sale ^[1]. Indian organisations including commercial banks have, of late, started focusing on customers' service. Thrust of quality customer service is on more involvement and choice and building on-going customer relationship. Although use of sophisticated technology has helped the new players in improving their operational efficiency and achieving an edge over their competitors, it is quite doubtful if it can totally substitute the human element from the process especially in the context of banking business. Maintaining relationship with the customers certainly requires people who can give a personal touch to the transactions and retain the customers in the bank's fold.

Realising though belatedly, that it is customers on whom depends the ultimate survival of banks and it is they whose willingness to pay for a product or service converts economic resources into wealth and things into goods and it is they who determine what is its business and, what it produces and whether it will prosper, commercial banks have, of late, embarked upon long-term marketing plan with focus on customers. However, they are still finding it too difficult to woo new customers and retain the existing ones because of higher value offered by the new players in terms of cost, quality, and product differentiation. Delivery and service. The mind-boggling question before Indian bankers today is how to attract customers and retain them.

First step towards the improvement of customer service was taken by the government by constituting the Saraiya Commission in 1972. Again, Talwar Committee (1975), Narasimham Committee (1992) were constituted which recommended a number of reforms in the customer services by the Public-sector banks. Rao (1987) conducted the study to examine the level of customer satisfaction in relation to bank services. He argued that there is a high degree of dissatisfaction among the customers. He advocated the view that the market should have the competition so that the banking sector should improve the level of customer services.

Corresponding Author:
Vibha Kumari
Research Scholar-Management
Department of Commerce and
Business Administration
Lalit Narayan Mithila
University, Darbhanga, Bihar,
India

National Institute of Bank Management, Pune (1986, 1991) conducted the surveys on the customer satisfaction regarding banking services. The findings gave the view that the services of the banks are not up to the mark and a lot need to be done to bring it to the level of customer expectation^[2]. The banking-sector also lacked promotional schemes. Goiporia Committee (1990) constituted by RBI released its report in 1991. It contained the detailed study of customer services offered by the public-sector banks and gave 97 recommendations for the improvement in banks. Out of 97 recommendations RBI accepted 89. Shekhawat (1993), Rangarajan (1993), Datta (1993), Sidh (1993) all discussed the marketing of services in banks and new horizons in Banking sector in India. They were of the view that the Indian Public-Sector banks would be facing tough competition from foreign sector and private sector banks in view of liberalization, thus marketing of services is important. Pai (1991) discussed the role of publicity in the marketing of bank services. He stressed that if the customer is satisfied with the services of the bank, he would go for the publicity of the bank, which is free advertisement. He also stressed that word of mouth travels much faster and gives committed customers.

Narayanmurthy (1997)^[3] discussed that the time has come for a change. Lot of players are there in the market. Non-Banking financial institution are giving tough competition to the banking sector. In banking sector, the private sector and foreign sector banks are giving strong competition to the public-sector banks in India. Seethapathi and Karuna (1999)^[4] discussed that only those banks would survive which would give quality services to the customers and believe in the long-term relationship management. Vyas (1999)⁵ discussed the customer satisfaction as the core competence tool for long term relationship and profitability. He expressed the view that this would be possible only if the services provided to the customers are of highest quality. Agarwal (1999)^[6] discussed the various parameters, of customer satisfaction level in Private Banks. Agarwal (2000)^[7] discussed that the customers is the central figure in the relationship marketing so that his loyalty can be commanded towards the particular brand of service.

Success of a service organisation depends upon the effectiveness and efficiency of the services provided to its customers: Banking is a customer-oriented service industry where the customer is in focus and customer service is a differentiating factor. In post nationalization period-there has been deterioration in quality of service provided to the customers by banks, mainly on account of tremendous growth in volume of business, expansion of branch network and diversified activities without core providing support of infrastructure. Economic reforms cultivated by the environment of India in the early nineties' have brought a sea-change ill operational environment of financial sector and fashioning and outlook of Indian banks. Features such as liberalisation, deregulation, globalization, modernisation, etc. witnessed by financial sector in the transition phase of reforms have attached prime importance to the qualitative customer service.

There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. Commercial Banks are those banks which accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans,

commercial banks also give medium term and long-term loans to business enterprises. Now-a day some of the commercial banks are also providing housing loan on a long-term basis to individuals. There are also many other functions of commercial banks. Commercial banks are of three types viz.

- **Public Sector Banks:** - These are banks where majority stake' is held by the government of India. Example of public sector banks are: State Bank of India, Corporation Bank, Bank of Boroda and Dena Bank, etc.
- **Private Sector Banks:** - In case of private sector banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. For example: ICICI Bank, Development Credit Bank Ltd, Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd., Vysya Bank, etc.
- **Foreign Banks:** - These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), City bank, American Express Bank, Standard & Chartered Bank, etc. the number of foreign banks operating in our country has increased since the financial sector reforms of 1991.

In a developing country like India the banking sector has played a multi-dimensional and multi directional role in overall development. The nature of this role has however, changed significantly over the period since independence. Financial sector has undergone a rapid transformation. The competitive and deregulatory forces have brought about a perceptible shift in the customers' expectations. With the advancement in ICT, the customers expect easy fast, efficient and secure financial services at reasonable costs.

In the wake of path breaking economic reforms leading to increased competitiveness and fast changing social, familial and personal values of people, bank's customers have, of late, become finicky demanding better service and higher value as also personal care and the management's growing realization that retaining existing customers is as important as attracting new customers and for that matter developing long-term relationship with customers is imperative, concept of customer relationship management (CRM) in banks has become cliché for commercial banks the world over. CRM, in fact, involves creating, maintaining and enhancing strong relationships with customers with a view to delivering long-term value to customers.

So as to nurse and develop long-term relationship with customers and to generate customer loyalty, a banker has to draw up strategic plan focusing on long-term course of action to be taken at the organizational level. With deepening competitive pressures, concept of CRM has been found lacking in retaining customers. It is, therefore, being realised that if a bank intends to retain one's premium positioning and higher margins, one is left with only one option: deliver a really powerful and pleasant customer experience and reinforce it in as many ways as possible so that the customers no longer cares if the rival product is cheaper or has no frills.

Relationship banking involves creating, maintaining and enhancing strong relationships with customers. It is the process of attracting, maintaining, enhancing and commercializing a relationship between a buyer and a seller.

Attracting customers is only the first step in relationship management, while it is the be-all and end-all in a transaction approach. In fact, the actual relationship starts when transaction ends. A sale merely consummates the courtship at which point the marriage depends on how the seller manages the relationship. Thus, relationship banking emphasizes on building and maintaining profitable long-term relationships with customers by creating superior customer value and satisfaction. Relationship banking is oriented toward the long-term. The objective is to deliver long term value to customers and the measure of success is long-terms customer satisfaction.

Relationship banking based on philosophy of nurturing and building long-term relations with customers is significantly useful to banking institutions in as much as it enhances their competitive advantages through revenue growth and cost savings. Retention proves more profitable as current customer place frequent orders and buy more. It is much easier to discover client needs and concerns in an existing client setting. With growing confidence of clients, and so also increasing image, more of new business opportunities may emerge.

Regarding CRM operations by commercial banks in India, it has been noted that during the past decade the banks have been striving hard to improve customer relationship management operations and spending enormous funds yearly on CRM initiatives. They have, of late, taken several steps to improve services to their customers.

The importance of customer service for capturing business is banks has become as focus point in all stages of marketing of banking services, since almost all banks offering more or less the same products with little changes in nomenclature. In the present day situations, customers becoming more and more demanding, bankers have had to evolve new approaches, new and innovative products to keep pace with growing expectations. With the opening up of the economy customer satisfaction has acquired new meaning and different dimensions as banks are discovering more and more innovative products to meet increasing competition among themselves (Goyal and Thakur, 2007) [8].

Customer Relationship Management is emerging as the core marketing activity for service firms operating in fiercely competitive environment (Shainesh and Mohan, 2001) [9]. The available researches show that successful and continuing relationships are characterised by trust, commitment and satisfaction (Morgan and Hunt, 1994) [10]. Driven by the challenges of competition, rising customer expectations and shrinking margins, banks have been using technology to reduce cost and enhance efficiency, productivity and customer convergence (Shainesh and Choudhary, 2001) [11].

Realising the inadequacy in banking services, the RBI issued in recent times specific guidelines to the banks. Even the Banking Ombudsman Scheme has been revamped in 2006 in order to enlarge its extent and scope of the authority and make the scheme more effective. The RBI has also directed the banks to build adequate institutional machinery, for formulating policies and executing them to the benefit of customers. Lately, the RBI permitted banks to deliver cash and drafts to the individual customers at their doorsteps on request. At this juncture, the present study has been undertaken to compare customer satisfaction in commercial banks in Bihar.

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