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

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

Customer Retension: An emerging challenge

Vibha Kumari

Abstract
The Indian banks in the changing scenario need to adopt international best practices in order to stay competitive. They need higher level of efficiency in terms of optional capital allocation better profitability, prudent risk management and greater competition which ultimately benefit the customers through innovative products and services at an affordable price. Upgrading policies, technology, leadership product range size are the emerging challenges before the Indian banks.

Keywords: commercial, banks, goverment, financial, organizations, India, technological

Introduction

In the past the Commercial banks did not find any attraction in the Indian economy because of the meagre business prospects and the low level of income. Of late, we find good auguries and expect that despite economic recession, the Indian economy is bound to prosper. We cannot deny that whatsoever the positive developments, we witness in the Indian economy are the gift of globalisation followed by corporatisation. Just after the beginning of the decade 1990s, we have witnessed a basic attitudinal change in the policy decision makers resulting into liberalisation which has compelled almost all the sectors to bring a structural change. They now need world class professional excellence and new generation of ICT so that a stage of fierce competition if accepted as a challenge and necessary steps are taken to excel competition. We need to be innovative, aggressive and creative. The public sector commercial banks need an effective prescription (Jha, 2011) [1].

Cataclysmic structural reforms in Indian economic system following the Government policy of tectonic economic liberalisation and tumbling of trade barriers coupled with metamorphic liberalised policy in financial sector in sync with Narsimham Committee recommendations leading to replacement of regulated, over administered banking industry by greater degree of operational autonomy, crumbling of entry barriers to the banking sector resulting into entry of new player (domestic and foreign), blurring of distinction between banks and non-banks, pathbreaking communicational and computational technological advancements in financial sector, deregulation of interest rate system and free pricing of products, introduction of floating exchange rate system, prescription of prudential norms of asset classification, income recognition and capital adequacy, changes in credit delivery mechanism, flexibility in credit assessment process and growing trend of disintermediation triggered competitive environment in the financial sector in the country with market forces deciding the future of banking and other financial institutions. All these led to the emergence of new banks, new financial institutions, new instruments, new windows and new opportunities, along with all these new challenges. While deregulation has opened up new vistas for banks to augment revenues, it has entailed greater competition and consequently greater risks [2].

In fiercely competitive environments, as it exists today in the country and abroad, banks like other organizations, to survive and thrive and to achieve sustainable competitive prowess over their rivals, have not only to be comparatively better and more efficient but also have to be different for all times to come. For this, they have to be resilient and need to evolve a strategy that is forever morphing, forever conforming itself to emerging opportunities and incipient trends. This demands prognostic diagnosis of the problems and challenges along with emerging opportunities and assessment of existing strengths and weakness of the commercial banks operating in India. The following paragraphs are devoted to dilate upon these issues and formulate strategies to cope with the challenges and capitalize on the opportunities so that the banks remain robust, vibrant and resilient. Emerging trends in banking sector have also been covered.

In view of unleashing of competitive forces and fast changing life styles and values of customers who are now better informed and more sophisticated and discerning and who become more demanding and their expectations in terms of products, delivery and price are increasing, the PSBs lacking in customers' orientation are finding it difficult to even retain their highly valued customers what to talk of attracting the new clients particularly when the foreign banks as also the new breed of private sector banks have embarked upon aggressive marketing programme aiming at niche markets. In their efforts to woo the customers, these banks by dint of information technology are offering speedier service and new and complex products. The telebanking, anywhere banking, virtual or Internet banking, ATM, Credit Cards and newly introduced interest rate swap, forward rate agreements, etc. are some of the products innovated by the new players. A fierce war is on among the aggressive new private and foreign banks in metropolis to grab 24-square feet pieces of land to set up ATMs. The pace of installation is so high that one day the ATMs will outnumber the brick and mortar branches in these cities. Although the PSBs are trying to computerise their operations, the pace of progress in this direction has been decidedly slow. Further, experience has shown that consumers' interest are at times not accorded full protection and their grievances are not properly attended to. Feed back received reveals recent trends of levying unreasonably high service/user charges and enhancement of user charges without proper and prior intimation [3]. The combined impact of customers' disenchament is already reflected in decline in the market share of PSBs both in deposits and lending's. This is causing serious concern to the management.

The problem for Indian banks is that their central i.e., money, is not for most people the realization of their dreams but simply a conduit to that dream house, car, holiday etc. Research suggests that organizations, that excel at creating and maintaining loyal customers can command prices that are 4-7% higher than weaker competitions and as a result also generate significantly higher profit [4]. This will also help them in retaining customers.

Indian banking is in a peculiar problem of managing conflicting interests of the Govt. of Indian and RBI on the one hand and the private shareholders, on the other. Growing demands of finicky customers are compelling banks to offer a broader range of products through diverse distribution channels. The recent measure taken by the Government and the RBI for opening up India's banking sector to international investors will further increase the pressure of competition. At the same time, there is renewed emphasis by the Government on the social sector together with thrust on rural and agricultural lending. Caught between the competitive pressure, both domestic and external, and the politics of development, banks will have to be on their toes, become even more efficient in managing funds and in meeting the needs and demands of customers [5].

The commercial banks in India, which enjoyed monopoly position until recently, are facing perilous challenges particularly on quality, cost and flexibility fronts from the newly emerging players who by dint of their invigorating ambience and work culture supported by pragmatic leadership, committed, courteous, affable and trained staff and modern ultra gadgets are offering excellent customer services and making inroads in the business centres.

PSBs operating hitherto in highly protected and regimented system heavily tilted towards deposit mobilisation and social banking responsibilities with little scope or incentive for the bankers to be conscious of their profitability and productivity levels and with high pre-emption of loanable funds and directed credit at concessional rate, massive branch costs, lower productivity and profitability and with unhealthy organizational culture and less motivated employees and mundane approach of managing operation are finding its extremely difficult to thwart the systematic and planned efforts of the new players from taking away their business.

The new banks have set the tone and to an extent also the standard for technological improvements and product innovations which the vastly dominating PSBs will have to bring in their own operations if they have to maintain their present position of dominance.

By resorting to latest methods in human resource management as well as information technology, the new entrants in the field have suddenly sensitised even the ordinary user of the banking services in India to the type and quality of services he can expect from his bank. This is the challenge before the older bigger nationalised banks, who till today are saddled with historical baggage of ta work ethic which has given greater weightage to creating employment opportunities over unit efficacy and witty hilly supported status-quo over the need for changes.

The market has become highly competitive and largely customer centric. This calls for an ability to reach the client at his door step and meet his requirements of products and services in a customised manner. The race for customers could at times lead to adverse selections. This situation demands aggression laced with caution which, in turn, calls for highly efficient management by the banks of both liabilities and assets.

These banks have to work in a market which will not know any geographical barriers and therefore will have to develop abilities of product innovation and delivery comparable to the best in the world.

Globalisation and integration of Indian financial market with world and the consequent entry of foreign players in domestic market has infused, in its wake, brutal competitive pressures on the Indian commercial banks. Foreign players endowed with robust capital adequacy, high quality assets, world-wide connectivity, benefits of economies of scale and stupendous risk management skills are posing serious threats to the existing business of the Indian banks. Cross-border flows and entry of new products, particularly derivative instruments, have impacted significantly on the domestic banking sector, forcing banks in India to adjust the product mix, as also to effect rapid changes in their processes and operations in order to remain competitive in the globalized environment. Indian banks are therefore, in greater pressure to gear themselves to offer not only wide menu of services but also provide these in a increasingly efficient manner in terms of cost, time and convenience.

Further more, globalisation of financial markets signifies that a problem in one country can sometimes adversely impact one or more countries instaneously, even if they are fundamentally strong. There is also a growing realization that the ability of countries to conduct business across national borders and the ability to cope with the possible downside risks would depend, inter alia, on the soundness of the financial system. This demands adoption of a strong and transparent, prudential, regulatory, supervisory, technological and institutional framework in the financial sector on par with international practices. All this necessitates a transformation: a transformation in the mindset, a transformation in the business processes and finally a transformation in knowledge management. This process is not a one shot affair; it needs to be appropriately phased in the least disruptive manner.

Key to success of service one of the major factors for low competitiveness of PSBs in India is inflexible and incapable labour force [6]. Organizations including banks in competitive landscape need high degree of talent because it contributes significantly to product innovation and development, deep understanding of market and customer needs, originality of service and creation of global infrastructure. Indian banking industry like other industries is facing problem of talent crunch. CEOs are viving with each other in attracting talents. Competition for talented people is becoming more fiercer than competition for customers [7].

Government policy of globalization and liberalization and the consequent integration of domestic markets with international financial markets have offered incredible opportunities to Indian commercial banks to expand and penetrate in domestic markets, diversify and internationalize their operations with greater freedom and to access international financial markets for procuring funds cheaply and deploy funds prudently so as to enhance their financial performance and improve their operational earnings. The banks are now enjoying greater autonomy in revisiting their credit and investment portfolio, reviewing extant branch network and greater discretion to reduce amplitude of cross subsidization to priority sector. Banks have now been managerial autonomy to acquire any company, non-bank finance company, housing finance companies or other business to increase their balance sheet size so as to grow into areas/sectors that they have potential. They can also exit non-profitable areas. Banks have also got freedom to pursue new lines of business as part of overall business strategy [8]. Further, they also enjoy freedom in pricing and structuring their products. They have the opportunity to access foreign markets.

One of the greatest strengths of Commercial Banks in India is their titanic branch network, giving an easy access to almost entire spectrum of customers. With over 53,000 branches spread all over the country. These branches are manned by staff having intimate knowledge of local environment.

Another great strength of Indian commercial banks is diversification in their operations. In fact, banks have moved from the traditional plain vanilla stuff of 10-15 years ago to offer an entire gamut of services including insurance, investment banking, asset management and private equity, foreign exchange, payment of utility bills of customers, offering mobile and internet banking services, etc. Banks especially new private sector banks, are on a roll when it comes to pleasing their clients.

Banks are also endowed with large manpower resources having relevant banking skills to manage the operations.

Post reform period has witnessed enormous increase in technological strengths of Indian Commercial banks, changing the way banking is done. ATMs, credit, telebanking fully computerized branches, country wide networks and internet banking, coupled with many innovative banking products completely changed the face of traditional banking. Anywhere banking and anytime banking has become a reality. This has rendered banking services faster, error free and competitive. Most of the banks have already started providing fancy products, driven by technology.

Finally, Commercial banks in India have gained in Financial strengths in recent few years in terms of productivity and profitability, improved financial soundness so much so that they are outshining their counterparts of advanced nations. However, they have still to traverse a long path to sustain the success.

The nearly 12 million small scale industrial units across India which account for about 49% of Indian’s exports, over 40% of manufactured output and employ about 30 million people, making a substantial contribution to the country’s GAP, have long been ignored by banks in India because it was felt that SMEs lacked a viable business model. But during the last four to five years, SMEs have steadily metamorphosed themselves into a performing sector across all industries, be it agri-products, food processing, industrial goods or IT services or any other areas of services. The number of success stories in this sector has gone up sharply. They are thus emerging as an engine of growth in the country. As a result, banks are sensing a good business opportunity in this sector as has been happening across Asia and elsewhere in the world [9]. There is, therefore, likelihood of banks’ lending business to the SMEs soaring by 50 percent in next few years.

SBI is firming up plans to expand its rural business and set up a separate entity for the same within the next three years. The plan is to have a vertical split if the Bank’s structural organisation into rural and metro-urban. The rural network would also offer products such as personal and home loans while the metro-urban branches would offer agri-products along with other products. With big corporates such as Reliance, Bharati, ITC and others getting into and allied businesses these in scope for such products even in urban areas [10].

To compete with global banks in terms of cost, quality and speed of services, Indian banks will have to gain in size and operate efficiency. At present, India has no big banks with assets of over Rs. 1,00,000 crore other than SBI and ICICI Bank. Even small economies in Asia like Thailand and Taiwan have more big banks than India. As such bank’s management should explore the possibility for forging mergers and alliances with other domestic banks [11]. This will enable the merging banks to achieve excellence in their operations and become global players by fuller utilization of skills and resources, melding complementary skills, cost savings through rationalization of operations, deep market penetration, diversification of risk, and by way of strengthening their financial, technological, operational and organizational efficiencies.

According to brand research the main influencer for customer to choose a brand is the reputation of an organisation [12]. Accordingly, companies in the financial services sector will have to develop a high level of brand affinity with the customer and help him or her connect to the brand at a personel level. Customers always prefer to deal with a brand that instills trust, is ethical and honest and above all stands for superior quality at a fair price which is readily discernible. They like brand which delivers what they need in a timely and unbureaucratic fashion. They also tend to connect to a brand emotionally their dreams, desires and aspirations are meant to be addressed by the brand they choose.

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