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Customer Retention in Banks through CRM: Latest Trends and Challenges

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Abstract: *Banking sector in India is expected to become the fifth largest in the world by 2020 as per a CII report. BFSI sector is also a major contributor comprising about 40 percent of revenue for major Information Technology companies. Post 2008-2009 global economic crisis, banking sector has undergone tremendous change in terms of improving technology infrastructure, offering better products and services and managing customer relationship and retentions. Digitalization has actually played a key role in this transformation. Major bank focus all through the digitalization process was customers. Post 2008-2009 crisis, customer confidence in the banking systems has decreased drastically. To improve the sentiments and to offer better customer experience, banks looked at technology up gradation to meet this customer challenge. The aim was to develop a customer relationship management system which will help banks to offer customers products and services as per customer choice which will in long run lead to customer delight and help in retention. Data plays a key role in this process to develop suitable products and services as per customer choice, else can lead to shift to other competitors. With the help of analytics and digital technology, banks are able to develop customized products offerings and services. This research paper also makes an attempt to study the key retention strategies which can be adopted by banks.*

Key Words: *Customer Retention, CRM, Customer Relationship, Customer Management, Digital Technology*

1. INTRODUCTION

Socio economic, political and business environment the world over has changed remarkable in the last decade, and appears poised to change still further in the coming years. There changes are influencing the way business is done. More and more organizations are discovering that in the ever increasingly competitive environment, their chances of survival and growth depend on collaboration with erstwhile competitions, the supply chain management, as well with the existing customers. Until recently, marketing efforts focused on “Creating Exchanges” rather than managing, long term relationship with customers. However, maturing markets, lower population growth and global competition have forced marketers to examine the cost of winning new customers while retaining their old ones. Therefore, we now see the focus of marketing shifting to managing long term relationship with customers. As India joins the world economy, witness a process of transformation in the business scenario. And the sailing has become tough for the Indian corporate sectors and business houses, especially, the Indian Banks visa vice the Foreign Banks operating in India. At the same time customers loyalty is on the wane now. In this scenario Customer Relationship Management (CRM) becomes inevitable for the marketers, and those who choose to ignore this are bound to perish.

Like other Indian business houses who are witnessing the changing scenario (some of them becomes victim to it), the Indian Banks are no exception to this, where customers patronization is receding day by day, due to greater benefit and new service facilities offered by the competitors. "The more my customers see me the better the relationship, says Bob Stark of Chase Manhattan Bank, US". "I have never brought a piece of new business sitting at my desk. This is the time that could have been spent cultivating prospects and selling new services to existing customers". Creation of new customers proves to the costlier than retaining existing ones.

The same is true about Indian Banks. Even when they did spend time with customers, their managers were not equipped with the knowledge they need to ensure that both the customers and the banks were benefiting from the relationship. Information about the banks products/services, its policies and about the accounts themselves was scattered and unreliable, making it impossible for managers to properly identify and asses the options available to their customers. Besides, the data available in the banks were organised by product and transaction but not by relationship. This situation called for a use of Relationship Management System (RMS) that combines the manager's knowledge about their customer's loan history, deposits, investments and so on with the bank's policies and product knowledge. At the same time, they are able to provide better services to their customers which in turn foster even stronger relationship. Long-term and stable relationship is possible, when both parties (Buyer and Seller) try to learn each other's business and develop cooperative solution to their problems'. Levitt called this form of relationship 'reciprocal dependency' and insisted that the seller is responsible for initiating and nurturing it.

Identifying and keeping in touch the potentially loyal customer is essential and computer technology now makes it possible on a scale unimaginable just a few years ago. In fact an excellent database and the capability to organise and analyze and segment it are absolutely essential to make relationship marketing work. The file must not only contain basic name and addresses, but purchase history and other relevant information that will allow firm to anticipate a customer's future needs. First, the Banks must have an excellent knowledge of its customers, an extensive database containing information on current and potential customers. Second, the bank must have the capability to tailor its marketing programs to individual customers based on customer characteristics and preferences, thereby customizing the products/services. Finally, it must be able to track individual purchase histories to be able to access the cost of acquiring and servicing each customer compared to the customer life tune value.

In the light of circumstance stated above it has been decided to carry out a research on Latest Trends and Challenges on how banks are able to retain their customers through CRM.

2. Literature Review

2.1 Need for Customer Retention in Banks:

Marketers have been groomed to acquire new customers who have not bought the product before or those who are currently using competitor's products and services. Both these efforts to acquire customers required mass advertising and price oriented promotions to customers and channel members. This strategy was the way to increase the market share. Never did the marketers thought to focus on customer retention while customer acquisition was always on top priority. However with the emergence of Customer Relationship Management, this tone has changed and now marketers are focussing on not only to acquire new customers, but also to retain the existing customer base. [1]. There has to be a balance between customer retention and acquisitions as both are the two sides of a coin. But the way we should look at acquiring and retaining customers should be different and from research it is found that it is more profitable to retain existing ones rather than creating new customers. Let's look at some of the research outcomes that have taken place that throws light on the profitability of Customer Retention.

- 96 % of dissatisfied customers don't complain.
- 65 % of customers leave because of poor service and lack of attention.
- It is 4 times more expensive to acquire a new customer then to retain an existing one.
- On an average a customer tells 9-10 people about a problem.

Further the impetus for this interest in CRM came from Reichheld where he showed the dramatic increase in profits from small increases in customer retention rates. For example, his studies showed that as little as a 5% increase in retention had impacts as high as 95% on the net present value delivered by customers (advertising agencies) with a low of 35% (computer software) [2]

Other studies done by consultants such as McKinsey have shown that repeat customers generate over twice as much gross income than new customers. The considerable improvements in technology and innovation in CRM-related products have made it much easier to deliver on the promise of greater profitability from reduced customer "churn." From the above analysis it is clear that companies should try to retain customers rather than acquire new ones. But again in order to sustain growth and market share, customer acquisitions are also required .CRM helps in retentions of Customers by offering solutions catering to the needs of Customers. CRM enables to offer solution to the different phases of Customer Life cycle. So next is the ways by which CRM helps in different process of Customer Life cycle. [1]

2.2 CRM Role in Customer Retention:

For customers: The perceived value a customer gets in a service is the aggregate assessment of the utility he gets compared to the money he is parting with [3]. Building long-term associations reduce consumer stress as the initial problems are solved, special needs are accommodated and consumer expectations are fixed. Over a period of time, the consumer will become aware that changing service providers would mean educating a new provider about his needs and preferences. Since most of the consumers have competing demands for their time, they search for ways to simplify decision making. When they maintain a relationship with a service provider, they free up time for other concerns and priorities. The switching costs are often very high in terms of costs of transferring business and the psychological and time related costs. For instance, in double income families, the couple identifies and establishes a relationship with a good baby care center. Later, should anything happen that requires a change in the service provider, the stress levels in the family immediately increase.

A long-term relationship also contributes to a sense of well being and an improved quality of life. In some long-term relationships, a service provider may actually become part of the consumer's social support system. For example, hairdressers often serve as personal confidantes. Local grocery store proprietor may become central figures in neighbourhood networks; a restaurant manager may know the customers personally for the dining habits and a private school principal knows an entire family and its special needs [4]

For organizations

Increased Buying: As customers mature in age, they may require more of a particular service. If such a customer is satisfied by the services rendered by a particular firm, there is an increased buying of the services from that firm. For instance, with increasing age, a customer may avail of a variety of schemes provided by an insurance company he is satisfied with.

Reduced Costs: There are many costs associated with attracting a new customer. There are also other start-up costs associated with new customers, like setting up accounts and systems, time costs of getting to know the customer and educating the customer to use the service. In the insurance industry, for example, the insurer typically doesn't recover the up-front costs until the third or the fourth year of the relationship.

Increased Profits: Reduced costs and increased purchases enable increased profit generation for a service firm. A study carried by Frederick Reichheld and W. Earl Sasser across industries, shows that the profit generated by a customer increases over a period of time. One way of understanding the long-term value of the customer is estimating increase in profits per each customer who remains loyal to the company instead of leaving it. Bain & Co. has performed a study on a number of industries. As per their results there is a significant increase in profits when the customer retention rates increases by five percent .The increase in profit ranges from 35 % to 95 % across various industries. The increase in profits ranges from 35% to 95%, making customer retention a worthwhile activity. The figure gives the increase in profits as a percentage of the previous profits, when the customer retention increases by five, percentage points. The increase in profits ranges from 35% to 95%, making customer retention a worthwhile activity.

Table 1 here

Good word –of-mouth: When a product is complex or the investment and risk involved are high - as is the case with many services - buyers seek the advice of others (referral markets). Since a large part of the market consists of the existing customers and the remaining depends on the opinion of the existing customers, we can see that retaining customers helps in directly and indirectly influencing prospective customers. Thus, the good word-of-mouth of a retained customer is very useful for service providers.

Employee retention: Since employees would like to be a part of successful organization, employee retention is an indirect benefit of successful customer retention. The employers can easily measure the success of an organization through employee retention as it indicates happy and loyal customers. Moreover, they can spend more time fostering the relationships instead of scrambling for new customers. It is easier to work with and develop social relationships with known customers rather than educate new customers. For example, an employee in a successful consulting firm may hesitate to leave the organization primarily due to his relationship with regular customers and vice versa.

Moreover, the longer an employee stays in an organization, the greater will be his experience on the job, which, in turn, will reflect on the service quality. With improved quality, the customers will remain loyal and happy. This positive upward spiral is represented in Figure 1.

Figure: 1 here

2.3 Customer Retention Strategies in Banks: Latest Trends and Impact of Digitalization

As per a report by Accenture, every bank customer is a digital customer [5]. Every bank is trying to harness the value of digitalization to make customer experience more regardful. As a result banks are trying to develop customer relationship and generate long term profits by looking at a central view of the customers and making customer focus products on top priority. This approach needs an in-depth understanding of customers need, wants, preferences for banking and what makes them click as a human being. For this to happen banks have to look at customers as individuals and not as series of different accounts. With help of technology banks are able to develop a product which is an amalgamation of physical and virtual product. For example saving accounts while created in physical form they can be transformed in virtual product through net banking and mobile banking to transact online. Similarly various other banking services are developed in similar fashion. And to make this happen banks have to understand customer's needs and requirements and develop products and services accordingly. Not all customers need are same, to develop a customized product for each customer requires developing value from available customer information and then developing and offering value and services for the customers. This makes banks to look for Customer Relationships as new source of value. Before the 2008-2009 global economic crisis banks were creating shareholder value through financial leveraging. As regulations and competitions are more challenging, this has forced banks to looks for alternate sources of customer and shareholder value creations. With the emergence of digital banking are helping banks direct customer relationships that present new sources of value. The focus is on developing trust and engaging the customers across the digital value chain. Digital technology also helps in developing trust among customers [6]

2.3.1 Customers are in focus due to Digital revolution:

Irrespective of size, profit and growth demand that banks focus on serving customers with right level of service, cost and right time. Several forces are driving this customer focus. First is customer personalized expectation of product, price and portfolio mix. Banks which can't deliver will fail due to less customer retention and high churn rate. With digitalization the concept of one service or product fits all has vanished. It is not only important to provide services within the banking network, of late it has become important for banks to partner and provide services across banking networks and to provide implement this banks need to look at a holistic approach. Digital banking is successful only when approached from a broad point of view that allows for increased customer satisfaction and informed cross-selling and up-selling. [7]

2.3.2 Creating Value Based Information: With customer in focus and creating value in customers relations is based on the string foundation of customer data which gets generated in every encounters which happens between customer and banks. This data helps in developing meaningful insights which can lead to actions and developing customized products and services. As per a research by Cognizant, with the ability to compete on code, banking and financial services was able to add more value when compared to any other sector. With the help of modern analytics it has proved profitable that with companies in the financial industry indicating that 10% of revenue and 10.1% of costs are directly affected by how well they make meaning from business information. [7]

2.4 Key Trends driving customers retention:

In the current digitalized era, positive customer experience is the key factor in banking and financial services and banks are trying hard to make this happen. This transformation to digital is making customers more vulnerable to switching as severe competitions among banks are making products and services marketing mix same leading to easy switching. The key here is to develop customized products for each customer. Those who can make this happen will see solid customer metrics with strong retention/engagement.

Below key trends which will influence the customer retention and philosophy are as per a recent report by Accenture Global Consumer Pulse Research which studies and has annually tracked the intentions and actions of consumers around the world.

1. **Customers are buying, but less so from current providers**: As per research, while customers are buying, however over the past years the buying trend is slowing downwards for current providers. It means customers are moving to other competitors.

2. **First-contact resolution is key to retention**: From the research it was found that good competitive pricing, high quality customer service and good value for money are the leading top three factors that makes customers to switch to another bank. Those who switched among 80% felt that they could have been retained if their issues were resolved at first contact.

3. **Digital channels have significantly increased the number of overall interactions**: With high competitions in the digital era, consumers continue to look for multiple channels (an average of three or more) when prospecting, and company website and online expert/comparison sites most relied on followed by word of-mouth, online reviews and branches.

4. **After switching to digital, customers are looking for more services**: While customers are satisfied from shifting to digital from traditional banking, still approximately 61% are looking for more online interactions after this shift.

5. **High, but slower growth in, customer service expectations gives banks a chance to catch up**: Trustworthiness, employee skills, high quality of services and ease of doing business are the key drivers of customer satisfaction for banking with more than 30 percent of consumers agreeing to it. However general customer expectations for customer service have increased greatly since 2007, growth is slowing, which gives companies a chance to catch up.

6. **Customer loyalty program adoption is rising, but fails to keep customers committed for the long haul**: While more customers are getting enrolled in the loyalty programs, however these programs are not enough to keep customers retained and loyal.

7. **Compelling offers could win back customers**: As per the research it was found that one third of the customers mentioned that they could come if superior products or price was offered.

8. **“Non-traditional” competitors are gaining ground with consumers**: From the research it was found that 44 percent of the customers would be open to consider products and services from companies that are not generally considered part of traditional industry definitions; 43 percent would be open to products/services from other consumers, not companies. [8,9]

3. Conclusion and Recommendations

Banking sector in India is expected to become the fifth largest in the world by 2020 as per a CII report. BFSI sector is also a major contributor comprising about 40 percent of revenue for major Information Technology companies. Major advantage of Digital Technologies is it helps an enterprise to attain financial and operational excellence. Among other sector, banking has been in the front for digital adoption in technology as well as in business. As digital technologies evolve it is expected that these technologies will impact the core banking processes directly having a positive affect on the customers. [10]. There has been a noticeable shift in the way the banking sector is looking at CRM. In the initial stages, companies readily invested in CRM without really conditioning it to suit their needs. But, banks today are getting smarter; they are extracting the most out of the technology by investing in real-time optimization of CRM. Financial services companies have been some of the most aggressive at adopting CRM technology, comprising as much as thirty percent of CRM spending during the last several years. However, results have been mixed, with some returns in point areas (marketing, call center), but little overall impact on customer satisfaction or competitive differentiation between companies. Many banks have spent millions integrating customer information in data warehouses, customer information files, and multi-channel infrastructures, with leading banks able to see customer transactions across products, lines of business and households. However, relatively few companies have invested in overall customer processes to leverage this data, replacing technology silos with organizational and operational ones. Similarly, while companies have improved tactical touch-point management, most have yet to incorporate strategic customer objectives (satisfaction, retention, cross sell) into day-to-day customer interactions. During the last 12 months, advances in customer planning, better use of information and empowerment of people resources in the call center and the branches has signalled a new generation of more effective CRM in the banking industry.

The next area is effective and timely use of customer information. Companies are investing in strategies to better target and manage customers based on their behavior, life stage and value. While companies have a great deal of customer data, segmentation schemes have been limited to five or so high-level segments and may vary by business units and activities (acquisition, retention or service). Treating a customer appropriately at all times means consolidating multiple divisional or subject data warehouses, as well as pushing segmentation to customer touch points (call center, branches, Web) to drive service escalation (one brokerage routes incoming calls by customer value), cross sell or retention offers, tiered services, etc. Many companies are investigating real-time optimization technologies (Data Distilleries, E.piphany, nCorp, Verbind, others) to better combine historical customer information with real-time behavioral data to react more quickly to customer changes. Better use of customer information helps improve the customer experience (aiding retention) and generates higher response and conversion rates for the same marketing spend. People empowerment helps balance automation with enhanced, more customized services for the best and highest potential customers, improving retention rates and responding more quickly to local competitive conditions.

Banks have invested in CRM infrastructure and now must invest in CRM processes, organizations and advanced techniques to solidify returns. Banks must identify high-potential customer segments and opportunities and work to ensure clear ownership, well-defined hand-off points and the proper incentives for cooperation (cross sell and retention incentives, etc.). They must also think about what processes should be centralized and where local innovation and customer relationships can make a difference.

Banks must focus on information utilization and not just collection, both centrally and at the point of customer presence. Finally, companies are balancing centralization with empowerment of people resources in the branches and in the call centers, including local retention and up sell programs for top customers, local marketing campaigns, and more customer-centric incentives for employees. New branch automation systems with customer processes (not just transactions) at the core, as well as distributed communication management, lead referral and incentive compensation systems are beginning to allow banks to exploit branch talent and deliver more personalized services. While CRM technology investment will continue, it’s the people and their use of the technology that will separate the CRM leaders from the laggards.

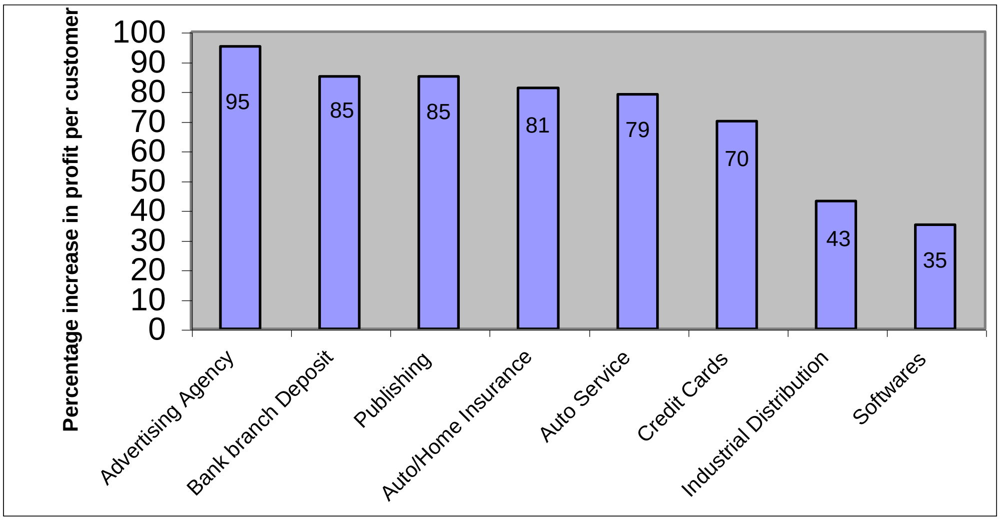
As banks move forward in CRM implementation they need to be careful that they spend CRM budget on smart, fast and focused initiatives that will lead to more customer satisfaction. It is a real opportunity to create tailored customer experiences, and as a result, competitive differentiation and long term growth. Leaders are taking careful steps and beginning to identify the varying needs of customers, manage the entire experience, and drive increased loyalty. Others simply can't afford to wait. Once a few players establish significantly differentiated experiences, they will be extremely difficult to catch. The adoption of Internet and wireless technologies will only accelerate interest in CRM solutions, as banks continue to seek a unified understanding of customer relationships across diverse channels.

As per a report published by Frost, the adoption of digital technologies in the banking sector in the next five years will be driven by improvement in regulations pertaining to data sharing and ownership, sector specific solutions that address issues related with security and privacy, and improvement in solutions and services to suit rapidly changing new age consumer preferences. These improvements will clearly help banks in managing customer relations and retention in longer run.[10]

4. FIGURES & TABLE:

Table: 1

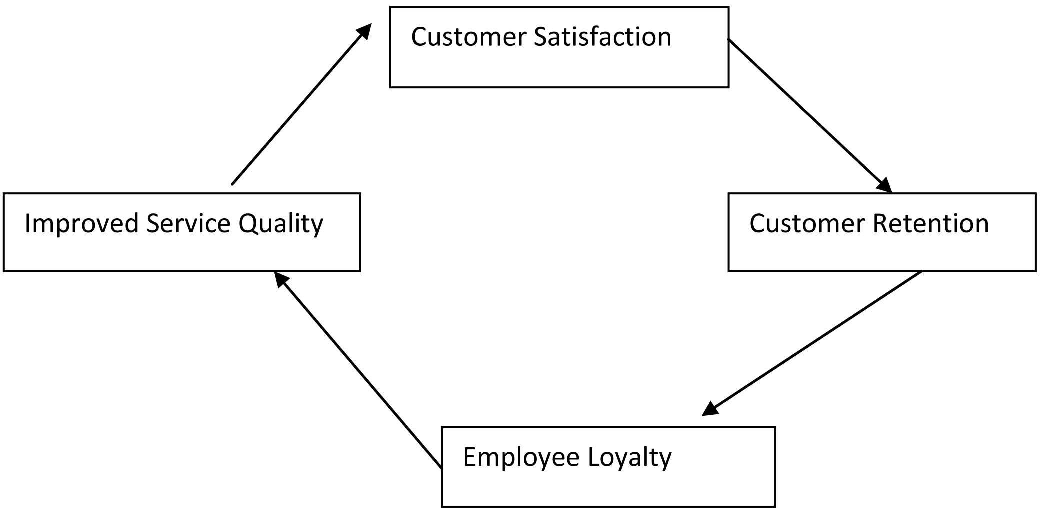
Profit impact of *5%* increase in retention rate.



Source: Services Marketing, ICFAI UNIVERSITY, P.143

Figure: 1

Customer retention and employee retention spiral



Source: Services Marketing, ICFAI UNIVERSITY

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