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APPLICATION OF CRM IN BANKING

*In the competitive banking field, customers make up one of the most important and valuable assets of any bank. CRM is an integrated strategy which can help banks become customer-oriented and choose customer-focused strategies. CRM requires many changes in contact channels, customer data and information technologies. The research outcomes are concluded as follows: 1. CRM can extend the contact channels between banks and customers, such as branch, ATM, iBanking, PDA and FEDI etc. to form a set of service system. 2. By optimizing the value chain, improving the level of IT application and easing information system, CRM can improve decision support competence and integrated planning capacity of banks to create core competitiveness. 3. With the implementation of the CRM platform, banks can easily analyze potential profitability, innovate banking business and expand to new markets. In short, CRM increases the capital value of a bank by better coordination between the departments of marketing and operations and helps to present service level as an outstanding differentiator from competitors. By CRM, banks will establish closer relationships with customers and increase their profits.*

*Keywords:* customer relationship management; banks; customer-oriented strategy.

ЧАО ЧАО ЧУАНГ, ФУ-ЛІНЬ ХУ  
ЗАСТОСУВАННЯ СИСТЕМ УПРАВЛІННЯ ВІДНОСИНАМИ  
З КЛІЄНТАМИ У БАНКІВСЬКІЙ ГАЛУЗІ

*У статті продемонстровано важливість клієнтів як цінного активу у конкурентній боротьбі банків на сучасному фінансовому ринку. Система відносин з клієнтами являє собою інтегровану стратегію, яка допомагає банкам стати більш клієнтоорієнтованими. Впровадження таких систем вимагає суттєвих змін, у тому числі щодо каналів комунікації, даних про клієнта та інформаційних технологій. Система відносин з клієнтами розширює канали комунікації через низку технологій, що формують єдину сервісну систему. Оптимізуючи ланцюг створення вартості та рівень застосування різних технологій, такі системи підвищують компетенції у сфері підтримки – і відповідно підвищують загальну конкурентоспроможність банків. Впровадження платформи для підтримки відносин з клієнтами допомагає банку проаналізувати потенційні прибутки, сприяє впровадженню інновацій та виходу банку на нові ринки. Такі системи підвищують капіталізацію банку через покращення комунікацій між департаментами маркетингу та операцій, що в свою чергу допомагає банку виокремитися на ринку серед конкурентів. За допомогою подібних систем управління банки встановлюють більш близькі відносини з клієнтами, що сприятиме підвищенню прибутковості діяльності.*

*Ключові слова:* управління відносинами з клієнтами; клієнтоорієнтована стратегія.

*Літ. 30.*

ЧАО ЧАО ЧУАНГ, ФУ-ЛІНЬ ХУ  
ПРИМЕНЕНИЕ СИСТЕМ УПРАВЛЕНИЯ ОТНОШЕНИЯМИ  
С КЛИЕНТАМИ В БАНКОВСКОЙ СФЕРЕ

*В статье показана важность клиентов как ценного актива в конкурентной борьбе банков на современном финансовом рынке. Система отношений с клиентами представляет собой интегрированную стратегию, которая помогает банкам стать более клиентоориентированными. Внедрение таких систем предполагает множество изменений, в том числе в каналах коммуникаций, данных о клиенте и информационных*

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*технологиях. Система отношений с клиентами расширяет каналы коммуникации через целый ряд технологий, которые формируют единую сервисную систему. Оптимизируя цепочку создания стоимости и уровень применения различных технологий, такие системы повышают компетенции в сфере поддержки – и соответственно повышают общую конкурентоспособность банков. Внедрение платформы для поддержки отношений с клиентами помогает банку проанализировать потенциальные прибыли, способствует внедрению инноваций и выходу банка на новые рынки. В общем, такие системы повышают капитализацию банка посредством улучшенной коммуникации между департаментами маркетинга и операций и помогают банку выделиться среди конкурентов на рынке. Через подобные системы управления банки устанавливают более близкие отношения с клиентами, что в дальнейшем повысит прибыльность работы.*

*Ключевые слова:* управление отношениями с клиентами; банки; клиентоориентированная стратегия.

## **Introduction**

Nowadays, banks are facing an aggressive rivalry and they must make every effort to survive at a competitive and indefinite market. Banks have recognized that managing customer relationships is a very significant factor for their success. So online banking and ATMs are set up to keep long-term relationships between banks and their customers.

CRM (customer relationship management) is a growing trend in banks today (Jarrar et al., 2002) and has been taken by many financial institutions in recent years. CRM stems from business processes such as relationship marketing. Besides, it stresses on improved customer retention and satisfaction through the efficient management of customer relationships.

One view of CRM is the utilization of customer-related information or knowledge to deliver related products or services. Another view of CRM is that it is technologically orientated. Progress in database technologies such as data warehousing and data mining is important for the functionality and efficiency of CRM systems (Lin et al., 2009).

## **Literature Review**

### ***1. The content of CRM development***

*1. Contact Channel Management:* CRM begins with customer contact channels to provide products or services. All these activities are recorded as customer data from the front office system. These data are transferred into the database of the back office system for further integration. Then it can be used as a decision support system for management to choose the best market access on suitability, distribution structure and integration of contact channels (Knox et al., 2003).

*2. Enterprise-wide Management:* An enterprise-wide database assembles and integrates data from the front office system and the back office system. So the company can analyze and make strategy precisely with data mining from the database.

*3. Customer Data Management:* The activities of contact channel management or customer data management should be guided with customer focus. All the activities in implementing the customer's data architecture to support company operations and business management are included in customer data management (Reynolds, 2002).

4. *IT Management*: For implementing CRM, companies need to invest in IT and specialized software to record, track and analyze consumer interactions. IT management is important and it enables the above management activities to be effective.

5. *Processes as CRM Assets*: Relationships depend on the processes that cover both the routine and the exceptional cases. Business processes determine the nature of a company's capabilities and its core competencies. Any process that is the key to customer relationship must be treated as a priority and made an asset or identity. The issue is not whether to make an investment, but how to source the process in a way that best generates value and is most cost efficient. It has to be looked at as a critical part of an enterprise-wide management strategy.

## **II. CRM functions**

CRM is the core business strategy that integrates internal processes and functions and external networks to create and deliver value to targeted customers. It is based on high quality customer data and enabled by IT (Buttle, 2004). John (2009) proposed that within the situation of an integrated CRM solution, the following techniques can satisfy a series of needs of a bank.

1. *Customer and Market Analysis (Segmentation/Profiling)*: Target customer groups are created based on common attributes such as demographic, economic, lifestyle etc. So banking institutions can focus their resources more effectively.

2. *Customer Profitability Analysis*: By combining transactions or data from customers' accounts, it is likely to evaluate each customer's life time value (LTV), defined as profit (or loss) generated by the customer during the period he cooperates with a bank. Therefore, banks can divide customers into different profitability segments by their total relationship balance – the total amount of money flowing between banks and the customer, including money deposits, investments, insurance etc. Focusing first on serving its high net-worth customers better, banks can use 20% of its resources to generate 80% of its profit.

3. *Attract/Acquire New Customers*: Determine and target new prospective customers based on their similarities with existing customers' profiles. This facilitates to select effectively prospective customers based on their future expected profitability.

4. *Develop Sales*: Maximize the value of the bank's existing customers by examining whether their preferences or interests are associated with other banking products. Later these products can be promoted to select customers through successfully implementing cross-sell and up-sell sales policies.

5. *Retention of Customers*: By timely predicting customer potential loss and estimating which of the existing customers are likely to alter, suspend or reject the purchase of specific products, it becomes possible to adopt the appropriate retention strategy. Besides, banks can use specialized promotion or targeted direct mail (that is, considering special characteristics and needs of particular customers) to increase their customer retention rates.

6. *Risk Assessment*: Based on historical data (such as past loans), bank may assess the risk undertaken when financing specific clients and categorize customers by their creditworthiness.

7. *Fraud Detection*: The ability to detect potential deviation from habitual customer behavior enables bank to detect possibly suspicious transactions (e.g., using credit cards) and to take necessary action to prevent them.

8. *Reduce Operating Cost*: This can be accomplished by centralized and consistent customer data management. By lowering administrative workload and streamlining data collection, CRM makes banks staff easier to research useful customer data and reduce operating costs.

9. *Improve Operational Efficiency*: Because all necessary information is directly available for front line employees while transacting with customers, customer service or operational efficiency can be improved. With consolidation of all customer information, such as their accounts, their portfolios and investment performance, banks can fully understand their customers to enable appropriate treatment, pricing decisions and services customization.

To summarize, the process discussed above shows that the knowledge on customer's life time value, along with an orderly use of a CRM application package makes it possible to modify applied attraction and retention strategies and to maintain a strong and devoted customer base; this contributes to the maximization of a bank's performance and the actual returns of investment on CRM techniques.

### **III. CRM in retail banking**

CRM allows financial institutions use information from their databases to acquire customer retention and to cross-sell new products and services to existing customers (Liu, 2007). Banks that implement CRM have better relationships with their customers, acquire customers' loyalty, increase profit and reduce cost (Roh, 2005). The analysis suggests that a 5% increase in customer retention increases profitability by 35% in banking, 50% in insurance and brokerage, and 125% at the consumer credit card market.

As noted by Kabiraj et al. (2004) "CRM can be employed to develop an ongoing dialogue with customers, integrated across all contact points. CRM allows retail banks to integrate customer-interaction channels, generate better customer intelligence, customize their offerings and communications to customer, manage customer relationships more effectively, and manage the customer portfolio by assessing the lifetime value of customers".

A successful CRM program involves collection and management of customer data. It shows the great possibilities of using data mining and statistical techniques to reach target customers at the optimal time with right products. By recognizing which customers are most probably to accept specific products for particular reasons such as lifecycle changes, sales and profitability are likely to improve (Salazar et al., 2007).

Another issue is that CRM programs need to combine technical, human and business capabilities to succeed. Being good at one of these capabilities and neglecting some of the others are not possibly successful. Excellent software by itself is not sufficient to lead to great success. A balanced method considering all parts is necessary for CRM implementation (Tim, 2007).

CRM may mean different things to different financial institutions. Although all are interested in developing long-term relationships with customers, some emphasize improved customer service, some focus on cross-selling and up-selling, and others attempt to find a good balance between the two. But the core of a successful CRM program should recognize not all customers are of equal long-term value to a bank (Dan et al., 2007).

With CRM, bank should focus on profitable customers, address their particular needs, and bring greater value to customers. According to the managers of famous

banks, 130% of the bank's profit belongs to top 10% customers. The bottom 40% of customers have a negative impact on profitability. It means not all customers create the same profit for a bank. So banks have to attract and retain high net worth individuals and profitable customers. Customers who have the possibility to be profitable over the long term must be offered customized solutions and provided enhanced services (Dan et al., 2007). Therefore, the battle of banks has taken a new dimension.

In this era, the Internet technology has revolutionized the way customers and banks look at CRM. Electronic-CRM (E-CRM) essentially deals with customer interactions over the Internet and various electronic channels of communication. E-CRM has made possible to gather customers data intelligently at the interaction stage itself. E-CRM applications are the application systems that handle interactions over these new channels of communication. Therefore, banks can acquire new customers, track their online behavior, and customize support or services more effectively.

#### ***IV. Implement CRM effectively***

Suresh (2012) suggested banks can take various steps to carry out CRM in an effective manner.

##### ***1. Acknowledge e-mail enquiries timely***

Banks should send an automated acknowledgement of the customer's mail and let them know when to expect a response to their query. And then get back to them in the promised time frame or earn more goodwill by responding back before the deadline.

##### ***2. Develop the right contact strategy***

Banks should know which incentives they can offer to different customers. In this way, banks will not annoy customers with unwanted offers and build customers' loyalty.

##### ***3. Online chatting facilities***

Online chatting could serve as an alternative to telephone support by responding to customers via e-mail or other electronic form. Service agent can provide immediate relief and simultaneously handle several problems. This also keeps customers in the online mode by exposing them to various promotion.

##### ***4. Reduce costs by improving website design and self-service***

By designing user-friendly sites, banks can reduce other expensive channels such e-mail, telephone support and chat which have high costs.

##### ***5. Analyze the scope of the project***

Before implementing CRM, bank executives must analyze business issues, the existing CRM model and the nature of customer interactions. Banks should not hold top-line growth as an objective until they know how CRM will provide those revenues.

##### ***6. Know limit***

Many CRMs are limited because they fail to provide an accurate and meaningful view of customers. CRM requires genuine integration between various departments to ensure that both business and technological issues are handled effectively.

##### ***7. Change accounts into customers***

Customers tend to feel distanced when they are treated as accounts instead of a person. Banks should develop a customer lifetime relationship. The idea is to become relationship-centric instead of transaction-centric. Recently customers are willing to

pay premium prices for better services. They are expecting more individual attention and responsiveness. If used electively, CRM will enable banks to deliver appropriate products and services to customers.

### **Methodology**

Guided by a deductive philosophy, a case study methodology is used (Yuan, 2001). Lindgreen and Antioco (2005) argue that the case study method facilitates researchers to have a holistic view of real-life events pertaining to the case under consideration. Therefore, to have an initial understanding of CRM practices in banking, the research attempts to explore the impact of the CRM system on ANZ bank. The reported findings are from the review of several case examples as well as the review of the bank reports, unpublished documents and online resources.

However, the review indicates past study most focused on Western banks, little research was conducted on CRM practices in Asia-Pacific banks. ANZ bank is chosen for this study because its overall performance has been enjoying positive trends over the past years. ANZ's customers in Asia are supported by 8,200 employees, and 100 branches and points of representation. This has seen ANZ emerge as a leading international bank in the region. For example, in 2012 ANZ was ranked as top 5 corporate bank in Asia by Greenwich Associates (ANZ Shareholder Review, 2012).

By using CRM system to facilitate customer service and new business propositions, ANZ has worked to implement its "Super Regional Strategy" – a bank of global quality with regional focus.

### **Results**

#### ***I. CRM Practices in ANZ Bank***

ANZ is an international banking and financial services organization based in Melbourne, Australia. It builds itself through rapid market expansion and acquisitions over the years to become one of the Asia-Pacific Region's largest financial institutions. ANZ takes pride in being "a different bank" addressing more active roles in the community and the environment it serves. To date, ANZ Group has operations in 32 countries and serves more than 8 mln customers worldwide, with the principal markets in Australia and New Zealand and the growing markets of the Asia Pacific Region, Middle East, Europe and the US.

Its unique portfolio of specialized businesses offers a full range of financial products and services, including mortgages, credit cards, corporate lending, asset finance, and more sophisticated investment banking products. ANZ has positioned itself as one of the leaders in technological advancements and innovations in banking. Its technology vision is "Automated, seamless, straight-through processing, E-banking with a human face". ANZ technology infrastructure enables complex integration like CRM system to operate effectively (Haragopal, Kapfer, 2010).

ANZ has also introduced a major investment program. The "Banking on Australia" program includes upgrading ANZ's distribution networks, simplifying products and processes, providing customers with additional mobile and flexible banking options, and improving the capability of front-line staff. Moreover, there will be significant investment in online channels, which will include the introduction of live chat on anz.com and other services to improve the overall digital Australia and New Zealand Banking Group Ltd (Gary, 2012).

#### ***1. CRM is an integrated system***

ANZ's CRM system integrates various business units, processes, and managerial skills. Its CRM system is one tool to maintain a competitive position at the market especially in Internet banking. CRM system enables ANZ's Internet banking to become one of core strengths and expand its market share since it started operating in 2010 (CRM Innovation, 2012).

CRM system connects ANZ's business partners. The connectivity enables a systematic operation between front office workers and support office workers. Sharing information and knowledge between all business units facilitates department to department communication and e-customer service. On e-customer service, a phone-based help desk is open 24/7. ANZ keeps a large database of its customers and uses this database to develop marketing opportunities.

### *2. CRM works in a loan application*

At ANZ, the integration of front office and back office functions enables quick turnaround time for customers. Online processing of loans is one of the ways that ANZ sustains its competitive position. Personal loan applications are completed online. A loan application made at any front office is processed at the back office subsidiary. Background checks on customers via the Internet are completed with the Credit Bureau to avoid delays with loans processing (ANZ Bank, 2011).

CRM is also related to knowledge management which enables effective problems solving and decision-making. It allows loan officers identify potential defaulting and high risk customers and do customer profiling which in turn increases staff productivity. Employees are able to close more deals with increased customer satisfaction, loyalty and retention.

An effective collaboration and management of people, processes, culture, and working environment is essential for implementing a successful CRM system. The home loan case study demonstrates how the integrated CRM system works in ANZ. Effectiveness of the process reflects participatory interactions among business units in ANZ in carrying out a single task (Deogratias, 2012).

### *3. CRM and Knowledge-Based Management*

Enterprise Knowledge Portals (EKP) are the doorways into many knowledge management systems. ANZ e-transformation vision directs the bank in a very important route using its technology capabilities to offer employees and other users' better chance to create and share information. This can be done through its intranet server where employees exchange and share information. In Australia and New Zealand, ANZ has recently launched new products like Money Manager, a money managing program that uses social networking sites such Facebook, as a means for clients to share information with a bank or others.

### *4. Cloud CRM*

ANZ also established a group-wide cloud computing policy. The policy was developed in the wake of the September 2011 review by Australian banking regulator APRA but shaped by the more stringent requirements of the Monetary Authority of Singapore (MAS).

ANZ thinks salesforce CRM could be quite useful in Australian businesses but ANZ also wants to do things globally consistently. So ANZ describes cloud CRM as "a fantastic product".

ANZ describes its target environment as a "cypher cloud", for which any customer data would be encrypted and depersonalized before moving to public cloud

environments. So ANZ never can compromise customer data. Going forward, ANZ will overcome all legislation and regulations in terms of privacy and location of data (Liz, 2012).

#### *5. A successful CRM system*

From the business perspective, ANZ CRM system has positively influenced the organization performance, both financially and non-financially. It has enhanced efficiency, connectivity, increased customer satisfaction and employee retention. This has been strongly illustrated by its marketing strategies using CRM as a platform. ANZ's overall performance has been enjoying positive trends over the past years, which can be strongly attributed to its development and investment in high technology infrastructure and complicated applications such as its CRM system.

An effective collaboration and management of technology, people, processes, culture, and working environment is essential to implementing a successful CRM system. ANZ is effective in implementing its marketing strategies by carefully aligning its products to the market involved and using its CRM system as a strategy to foster relationship marketing and improve sales.

#### **Conclusion**

Banks must supply personalized products and services, establish close relationship between themselves and customers in the long run. Hence, undertaking CRM is very important.

One of the critical benefits is to integrate customers' resources and improve customers' satisfaction. CRM in the architecture system of banks plays an important role. It can extend contact channels between banks and customers. CRM integrate different kinds of resources, such as branch, ATM, iBanking, PDA and FEDI (financial electronic data interchange) etc. to form a set of service system. CRM system makes departments in banks share the same consumer information platform. In short, CRM integrates people, processes and technologies. It gives a complete picture of all bank transactions and customer information and stores it in a data warehouse. Therefore, staffs of bank's call center are in a better position to serve customers and improve customers' satisfaction and persistency.

Secondly, CRM can improve decision support competence and create core competitiveness. Through CRM, banks can predict more accurately which products and services will attract existing customers and calculate profitability. With advanced developing strategy which is customer oriented, CRM will optimize the value chain, improve the level of IT application and ease information system. Therefore, CRM finally will improve employees' knowledge and working skills, increase the level of service and create core competitiveness.

Thirdly, CRM can innovate banking business and expand to new markets.

With the implementation of the CRM platform, banks can easily analyze potential profitability of customers over their lifetime and classify them according to their different demands. With a better and closer understanding of customers on a one-to-one or smaller segment basis, a bank can adopt the individual marketing strategy rather than the mass marketing strategy. Focusing first on serving its high net-worth customers better, banks can use 20% of the resources to generate 80% of the profit.

In short, CRM implementation has given the bank a higher degree of effectiveness and performance, a better level of service, and decreased the response time. The



focus has changed from the product-oriented way to the customer-oriented way. Besides, CRM has increased the capital value of the bank by better coordination of the departments of marketing and operations and has helped the bank to present the service level as an outstanding differentiator from competitors.

CRM includes marketing, sales, service and technology as well as other inner activity of the bank. Therefore, CRM is used as an enterprise-wide strategy. It includes all the departments of the bank to work in coordination towards an objective of more satisfactory and long-term customer relationships.

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