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## Customer Relationship Management in Banking Services and Problems of Agriculture Credit in India

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### Abstract:

CRM is concerned with the relationship between the organization and its customers. CRM is an essential part of Modern Business Management. CRM as a philosophy and a practice has proved its mettle to build and strengthen relationship and retention. The success of CRM depends upon the methodology and software that helps an enterprise manage CRM in an efficient way. The failures in most cases are attributable to improper implementation in practice. Operational CRM which provides required information and analytical CRM which traces activities and makes information more sensible are the two tools of CRM. CRM cell, portfolio of products, customer metrics and latest technologies are some of the requirements for efficiently implementing CRM.

Rural credit includes not only credit provided to farmers but also credit extended to artisans, owners of small and medium industries in rural areas, small transport operators and so on. Two main sources of rural credit are private and institutional. The former includes private moneylenders, traders and commission agencies, relatives and- landlords. Small and marginal farmers still remain unworthy borrowers in the banking parlance, though it was hoped at the time of nationalisation that these banks would take care of the credit needs of the farmers. Their dependence on informal markets after 50 years of planning does not augur well. The quantitative expansion of institutional sources hide all these facts. From the qualitative angle, their performance is subject to serious scrutiny.

This article makes an attempt to cover the CRM practices in the context of banking services particularly in the Indian context and also makes an effort to study the problems of rural credit in India

**Keywords :** Customer Relationship Management, Banking , Business Organization, Institutional Credit, Rural Credit.

**Introduction:** Today's world is distinct within its hyper competitive environment. Survival of the fittest is the mantra of this century and banking being the service industry, is definitely no exception to it. CRM today is changing the dynamics of marketing. The financial services including banking services would be the forefront beneficiaries of CRM among other organizations. However it is to be noted that CRM is an essential part of Modern Business Management.

**Successful organizations use these steps to build CRM.:**

1. Determine mutually satisfying goals between the organization and customers.
2. Establish and maintain customer rapport.
3. Produce positive feelings in the organization and the customers.



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CRM is a business strategy and philosophy organizations can practice CRM without technology. For instance, when you were on a business trip to another city, the hotel with which you have booked, sends across the transport to receive you with a bouquet of flowers. The driver is very helpful and the hotel reserves one of the sea facing rooms on the top floor with a great view for you, which you like. The food was very good and the quality of service excellent. Further the hotel appears to know each of your likings from food to drinks even the colour of pillow covers and bed sheets. The next day happens to be your wedding anniversary and the hotel sends you a card, cake and a bottle of wine on the house. They invite you for the dinner on a special table and the musician plays a special music for you. The experience was so pleasant and on your way back you made a decision. Whenever you visit that place, you will stay with them. The entire thing reflects the effective practice of CRM by an organization. In the entire issue, technology was nowhere involved. According to IBM, CRM essentially means two things:

1. Know your customer. (KYC).
2. Appearing as one entity to the customer.

Understanding the customer his unique needs are at the core of CRM. CRM companies redesign their processes and project an unified view to the customer. H.P. calls the same as “two tenets of the customers”. According to them, first tenet is that a customer – focused company needs to have a unified view of business unit or channel with which they are working. This bi-directional view is critical for true relationship marketing.

#### **CRM in Banks – Indian Scenario:**

One industry best suited for CRM implementation is the Indian Banking and the financial services sector, which has the highest growth potential and accounts for 22% of CRM license revenue in the mid of 2009-10. Banks such as ICICI Bank and Citibank are using CRM products. However CRM market in India is still at nascent stage Indian Banks haven't yet seen big results from CRM solutions, probably due to improper implementation. Being short sighted, they have adopted new technology without a clear understanding of how to integrate it with the existing systems.

Indian Banking Industry should aim to formulate newer strategies incorporating people, processes and technology issues. In accordance with the strategies current and future IT initiatives can be formulated, prioritizing the related activities and their feasibility. Once this is done, implementation in a phased manner will definitely lead to organizations success in achieving the goals.

#### **Current Trends:**

CRM as a concept and a practice has become a fulcrum in the programmes and practices of banking services particularly in the context of Retail Banking Services. It indeed has come true in the context of competition among bankers of domestic and global origins. Today the banks have realized the importance of CRM and its ability to retain existing customers and thereby maximization of customer lifetime value. As a result of its dire necessity the need for implementation of CRM has become manifold, in terms of its importance to banks and the customers. Banks have understood, that CRM as a sound business strategy, is a tool to identify the most profitable customers and their retention for mutual benefits.



CRM- part of relationship marketing is an age old concept which has been rediscovered and applied through the enablement of information technology. The Information Technology based CRM helps the marketers to redefine their strategies customer centric, retention and edge over other competitors. CRM is based on the core understanding that the customers tend to stay and continue to use the services specifically services like banking services if they are well taken care of. An organization will succeed in the implementation of CRM if the preparation for the implementation of CRM is well taken care of. Its successful implementation also depends upon the support of the top management since it starts with the top management and spreads across all levels of the organization. It is to be noted here that today organizations conduct regular review of CRM implementation in order to make necessary changes if needed.

### **CRM Tools for Banking :**

CRM Tools can be broadly classified into 1. **Operational Tools** 2. **Analytical Tools**.

1. **Operational CRM** provides the software support for business that requires customer contact. It is aimed at providing information to employees and documenting all customer interactions across channels such as personal contacts, telephonic, electronic and wireless contact. For eg if an important customer dials to the bank's call centre, the operational CRM can alert the call centre of the customer's account status and other details.
2. **Analytical CRM** helps bank make sense of the information collected. It is aimed at utilizing the customer's potential to the maximum. It helps tracking the activities of the customer on a real time basis. For eg. If there is a regular monthly debit of a certain amount in the customer's account by means of cheque in favour of some other bank, it is an indication that the customer is having a loan with the bank. Analytical CRM can trace this activity and the banker can offer him a loan with better benefits in the process benefit himself.

### **CRM Implementation :**

The following are some of the essential requirements for implementing CRM successfully.

**1. CRM Cell :** The bankers should establish a CRM Cell to take care of all CRM related activities. It can serve as an advisor, coordinator and controller of CRM activities of all bank branches. Banks may also select say around 100 prime, profitable and exclusive customers where requirements will be directly dealt with by the cell. This cell should also have experienced staff with good track record.

**2. Portfolio of products :** Banks have to constantly update their products keeping in mind the technological developments. Innovations like paperless banking digital signature, e-banking etc., attract customers.

**3. Customer Metrics:** Banks have a great concern over the profits, which in turn may hamper their enthusiasm for CRM. Today, Bankers are looking for a way to quantify their return on investment.

**4. Technology :** Technology plays an important role in CRM implementation. There are a lot of CRM vendors like SAP, Oracle, Telisma etc., The CRM system should be technologically

sound and versatile enough to resolve the problems of the banks and enhance its efficiency to serve the customers.

**5.Surveys :** It is necessary to undertake surveys at periodical intervals to measure the effect of CRM implementation.

#### **Benefits of CRM Activities :**

There are significant business benefits which accrue from an effective , integrated Customer Relationship Management approach. These includes :

1. Increased customer satisfaction because they are getting exactly what they want.
2. Growth in the number of customers.
3. Reduction of Advertisement Costs.
4. Helps in targeting specific customers by focusing on there needs.
5. Track effectiveness of a marketing campaign.
6. Allows organizations to compete , based on services and not prices.
7. Prevents overspending on low value clients or underspending on high value clients.
8. Speeds up the marketing cycle.
9. Improves the use of customer channel thus making reduced costs because the right activities are being done.
10. Ensures that the focus of the organization is external.
11. Maximized opportunities.
12. Increased access to a source of market and competitor information.
13. Highlights poor operational processes.
14. Increased loyalty of profitable customers.
15. Cross- Selling Opportunities.
16. Customer Retention.
17. Reduced Customer Attrition / Churn Tailoring Prices.
18. Provision of a single point contact with a customer.

Thus organizations understand the vital need to maintain a strategic focus on CRM and to resource and manage it appropriately.

#### **Agricultural Credit:**

An average Indian farmer, who has to work on an uneconomic holding', using traditional methods of cultivation and being exposed to the risks of a poor agricultural season is almost always in debt. He is a perennial debtor.

Once the farmer falls into debt due to crop failure or low prices of crops or malpractices of moneylenders he can never come out of it. In fact, large part of the liabilities of farmers is 'ancestral debt'. Thus, along with his landed property, he passes on his debt to the next generation.

#### **There are four main causes of rural indebtedness in India:**

- (i) low earning power of the borrower,
- (ii) use of loan for unproductive purposes,
- (iii) very high rate of interest charged by the village moneylender
- (iv) the manipulation of accounts by the lenders.



In a few cases, the bad habits of the farmers (such as gambling, drinking, etc.) are responsible for his burden of 'unproductive' debt. However, in most cases, the cause of the debt may be some expensive social ceremony which the farmer was perhaps forced to "arrange for fear of a social boycott".

#### ***Need for Finance:***

Finance is required by farmers not only for the production and marketing of crops but also to keep a stagnant agricultural economy alive. Most Indian farmers live near the brink of starvation. A bad monsoon, a poor harvest, an accident or illness in the family forces him to approach the moneylender for a loan. In India, there is the preponderance of such 'distress' or unproductive loans. Agricultural finance in India is not just one requirement of the agricultural business but a symptom of the distress prevailing among the majority of the farmers.

Rural credit includes not only credit provided to farmers but also credit extended to artisans, owners of small and medium industries in rural areas, small transport operators and so on. Two main sources of rural credit are private and institutional. The former includes private moneylenders, traders and commission agencies, relatives and- landlords.

The sources of institutional credit are rural co-operatives, commercial banks, particularly the State Bank of India (SBI). And, with the setting up of a specialised institution called the National Bank for Agricultural and Rural Development (NABARD) the Agricultural Refinance and Development Corporation (ARDC) has ceased to exist. Up to 1982 it was responsible for extending agricultural finance under guidance of the Reserve Bank of India.

It may also be noted that the short- and medium-term credit requirements of the farmers is met by indigenous bankers or village moneylenders, co-operative credit societies and commercial banks. Long-term credit needs are met by land development banks and NABARD.

The principal aim of institutional credit is to replace the widely prevalent money-lending at a very high rate of interest. Available data show that the rural credit institutions have succeeded to a considerable extent in achieving this aim.

#### ***Institutional Farm Finance:***

The need for institutional credit has been felt because of the inherent defects of private agencies.

#### **Five main defects of the system of private credit are the following:**

1. It is highly exploitative in character because of the inherent profit motive.
2. Since such credit is provided largely for unproductive purposes the rate of interest charged is very high.
3. Such credit is not necessarily directed toward needy persons or desired channels.
4. Such credit is provided for short periods of time and at high rates of interest and cannot, therefore, be utilised for land development or long- term improvement of agriculture.
5. Institutional credit is not linked with other non-farm services such as marketing and processing and warehousing.

By contrast, institutional credit is basically un-exploitive in character. It is largely directed towards raising agricultural productivity so that the income of the farmer increases



sufficiently and he becomes self-sufficient. The rate of interest is not only low but varies from case to case. Different rates of interest are charged for different types of loans and different categories of farmers.

Institutional agencies also draw a clear-cut distinction between short-term credit and long-term credit. Moreover, they recognise the organic link between credit and other needs of the farmers and seek to achieve an integration of credit with such needs.

Farmers not only need credit but also guidance in adopting improved methods of cultivation. Thus, it is necessary to provide such guidance and extension services along with credit. They must be taught how to use quality seeds, fertilisers, pesticides, etc. and also how to grow crops.

They must also be provided marketing assistance so that they can obtain the best possible return from their produce. Only institutions like co-operative societies, commercial banks, etc. can provide such guidance, not the usurious moneylenders and greedy commission agents. So it is now necessary to make a brief review of different institutional agencies of rural credit.

### **Consequences:**

Rural indebtedness is also likely to have some undesirable social consequences. Due to ever-growing debt there emerges in the rural economy of India a class of landless labourers and tenants. Consequently independent or self-sufficient farmers gradually lose their identity. The landless workers have nothing to offer as security in order to obtain loans from moneylenders, except their labour power.

Consequently, they become bonded labourers. This creates discontent among them and adds to rural tensions. In fact, the acquisition of land by the traders and moneylenders and the consequent deprivation of the poor farmers of their meager landed property was the root cause of the Naxalite movement, which assumed serious proportions in West Bengal, Orissa and Andhra Pradesh in the late 1960s and the 1970s. Thus there is no use denying the problem of rural indebtedness. Sooner the problem is removed from its roots the better for India's rural economy.

### **Suggestions and Recommendations :**

The following are some of the important suggestions and recommendations :

1. The Banks should use Technology and Human Resources to gain the understanding of needs and behaviours of present and potential customers.
2. The Banks should also retain and establish mutually rewarding one-to-one relationship with customers.
3. The Banks should simplify marketing and sales process and provide better customer service to customers.
4. Banks should focus their activities on cross-selling and up-selling and increase their revenues.
5. Banks should take very special effort to identify high value customers so that the organization can serve them better with differential service.
6. Since the problem of rural indebtedness has two major dimensions, to solve the problem we have to adopt a two-fold strategy. Since the magnitude of debt is quite high, steps may

be taken to cancel old debts. There is a strong case for reduction of ancestral debt and even for their liquidation.

7. It is to be ensured that the quantum of fresh borrowing is reduced to the minimum, keeping in view the repayment capacity of farmers. It is equally important to ensure that new borrowing is strictly for productive purposes and not for meeting consumption needs. It is, however, difficult for the Government to ensure this in practice.

### Conclusion :

The Banking industry in India has undergone volatile changes during the last decade and one of the major areas of change has been customer service. Customers of today demand **universal banking**. If CRM practices are conceived and implemented properly, it will enable companies to retain customer for life, get maximum value out of each customer and generate bonding with the customer otherwise it may fail or deliver poor results or merely another management fad that fails to serve its purpose.

Despite huge increase in overall agricultural credit, there is a serious problem of overdues which has been inhibiting credit expansion on the one hand and economic viability of the lending institutions, mainly the co-operatives and regional rural banks on the other. The waiver of agricultural loans to the tune of Rs. 10,000 crores in 1990-91 has virtually stopped the credit cycle. If this practice is continued in the future too rural credit expansion will take a back seat. But, if more and more emphasis is to be given to the agricultural sector, lending institutions will be under more and more pressure.

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