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Customer Relationship Management (CRM) in the Banking Sector of Pakistan: Problems and Challenges

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Abstract

Customer Relationship Management (CRM) came into the power when banking institutions were getting more and more competitive. The focus of CRM helped banks to understand the customers' current needs, what they have done in the past, and what they plan to do in the future to meet their own goals (Xu, et al., 2002). Even though most of the banks in the developing countries such as: Pakistan, India etc. have realised the importance of CRM and implemented its applications, but the initial investigations of the current research have shown that quite a number of CRM goals does not produce required results and even worse, in some cases users say that CRM has damaged customer relationships. Therefore, this paper is based on highlighting the problems and challenges in the banking sector of Pakistan using CRM. Also, some of the major problems in the banking sector of Pakistan are identified using the qualitative interviews from different bank employees and customers and their findings are presented in this paper.

Keywords: Customer Relationship Management (CRM), Banking Industry, Qualitative Research, Case Study Research.

1. Introduction

Today, banking institutions face many challenges including global competition for deposits, loans, underwriting fees, increasing customer demands, shrinking profit margins, and the need to keep up with the new technologies (SAP AG, 2002). According to Onut *et al.*, (2006), banks and other service providers realise the importance of Customer Relationship Management (CRM) and its potential to help them acquiring new customers, retain existing ones, and maximize their lifetime value.

Customer Relationship Management (CRM) came into the power when banking institutions were getting more and more competitive. The focus of CRM helped banks to understand the customer's current needs, what they have done in the past, and what they plan to do in the future to meet their own goals (Xu, *et al.*, 2002). According to Crosby (2002), the intelligent use of information about customer needs will create long-term two way relationship with the customers. This will bring many advantages to the banking sector since long

term customers are less costly to serve and smooth-running relationships are less resource demanding. In general, CRM for any organization consists of two tasks i.e., customer acquisition and increased sales to existing customers. It is often justified by the phrase, "Make the right offer at the right time to the right customer".

In a web article by Bhaduri (2005) in which the author discuss about the use of CRM for banking sector in developing countries; the author describe that CRM is variously misunderstood as a fancy sales strategy, an expensive software product, or even a new method of data collection. It is none of these. CRM is a simple philosophy that places the customer at the heart of a business organization's processes, activities, and culture to improve his/her satisfaction of service and, in turn, it will maximize the profits for the organization. Bhaduri (2005) further argues that CRM made bankers realise that the purpose of their business is to "create and keep a customer" and to "view the entire business process as consisting of a tightly integrated effort to discover, create, and satisfy customer needs".

Pakistan is considered amongst one of the developing country and in this internet age when the customers are having access to a variety of products and services worldwide, it is becoming very difficult for the local banks in Pakistan to provide the services according to the needs of customers. In such case, instead of acquiring new customers, it is becoming more difficult for these banks to keep their existing customers. Even though most of the banks in Pakistan have realised the importance of CRM and implemented its applications, but the initial investigations during the current research have shown that quite a number of CRM goals does not produces required results and, even worse, in some cases users say that CRM has damaged customer relationships. Currently, in the banking sector of Pakistan, CRM vision is merely an I.T system that only records customer detail (necessary or unnecessary), including their previous transaction histories, purchasing preferences, and even birthdays. Banks then uses this data to personalise every contact with that customer, sometimes sending unsolicited mails. In short, it looks like that the current CRM system in the banking industry of Pakistan is not producing the required results. Therefore, this paper highlights some of the major problems and

challenges in the banking sector of Pakistan using the customer relationship management (CRM).

2. Background

In this part of the paper, we start with some basic definitions of CRM, its background knowledge and work done by several researchers in this area especially in the banking sector. Major Banks in Pakistan and some success stories of CRM in context with the banking industry are also presented in this section.

2.1 Definition of a Customer

Imhoff *et al.*, (2001) defines customer as:

"A party who is involved with the acquisition of the company's goods and services, and who is also of interest to the organization"

In the above definition, party or customers can be either individuals or organizations. Customers can also be loose group of individuals joined together as a membership organization, such as the Civil Aviation Authority (CAA) in UK. This definition is too broad in this paper but in the current research, we mean customer as a "Bank Client".

2.2 Customer Relationship Management (CRM)

Customer Relationship Management is defined in many ways by many authors. Dyche' (2002) in his book defines CRM as:

"The infrastructure that enables the delineation of and increase in customer value, and the correct means by which to motivate valuable customers to remain loyal-indeed, to buy again."

Providing customers with a good experience however and whenever they choose to contact you

is a key part of managing relationships with them. For the purpose of current research, CRM is defined as a business strategy that:

"comprises a set of processes and enabling systems supporting a business strategy to build long term, profitable relationships with specific customers. The key objective of CRM is to enhance customer value through a better understanding of individual needs and preference" (Ling and Yen, 2001).

2.3 Information Technology Consideration of CRM

Several writers have taken different views about which technologies comprise a best CRM consideration. According to Dyche' (2002), there is no one right answer to CRM implementation as long as business requirements drive the initiative. The author presented two different approaches of CRM solution i.e., operational CRM and analytical CRM.

2.3.1 Operational CRM

It is also known as "front office" CRM. It involves the areas where direct customer contact occurs also known as "touch points". A touch point can be an inbound contact e.g., a call to a company's customer support hotline; or an outbound contact e.g., an in-person sales call or an e-mail promotion. In other words, the operational CRM is also used to capture customer's data. The operational CRM also enables and streamlines communications to and from customers, but it does not necessarily mean optimizing service. Just because a banking customer checks his/her balance on a website won't conclusively establish that he/she does not prefer to perform his/her transaction in the branch (Dyche', 2002). Figure 1 illustrates the various levels of operational CRM.

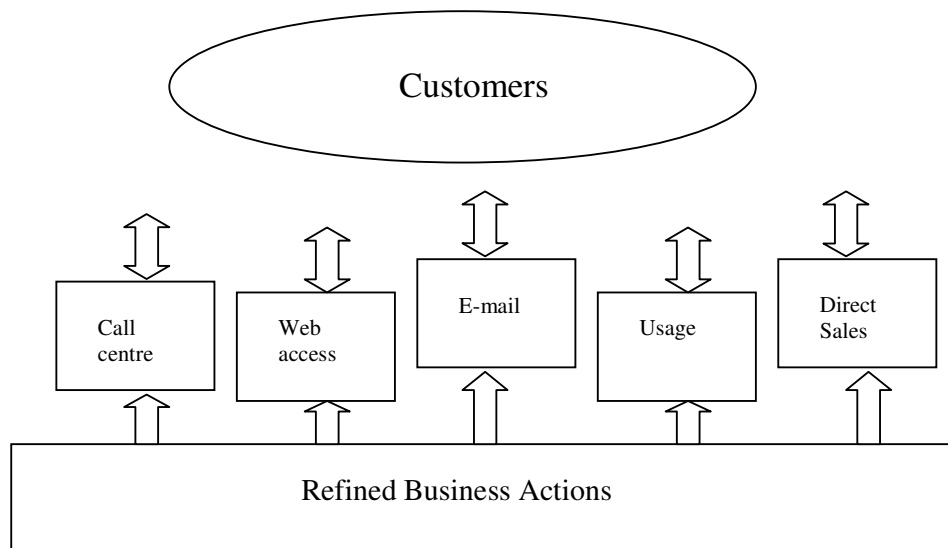


Figure 1: Operational CRM: Touching the Customer (Source: Dyche', 2002)

2.3.2 Analytical CRM

It is also known as “back office” or “strategic” CRM. It involves understanding the customer activities that occurred in the front office. The analytical CRM requires technology (to compile and process the mountains of customer data to facilitate analysis) and new business processes (to refine customer-facing practices to increase loyalty and profitability). Under pressure from analysts and industry experts, most of today’s CRM vendors are either creating analytical CRM capabilities or partnership with business intelligence (BI) vendors

to incorporate analysis into their offerings (Dyche’, 2002).

Figure 2 shows how the data and processes combine to refine business actions. Dyche’, (2002) further explain that the refined-business-actions piece of the puzzle is the most difficult of all to put in place. The greater the number of missing pieces, the harder it is to construct a meaningful CRM picture. Put another way, if enhanced customer loyalty is the door, integration is the key.

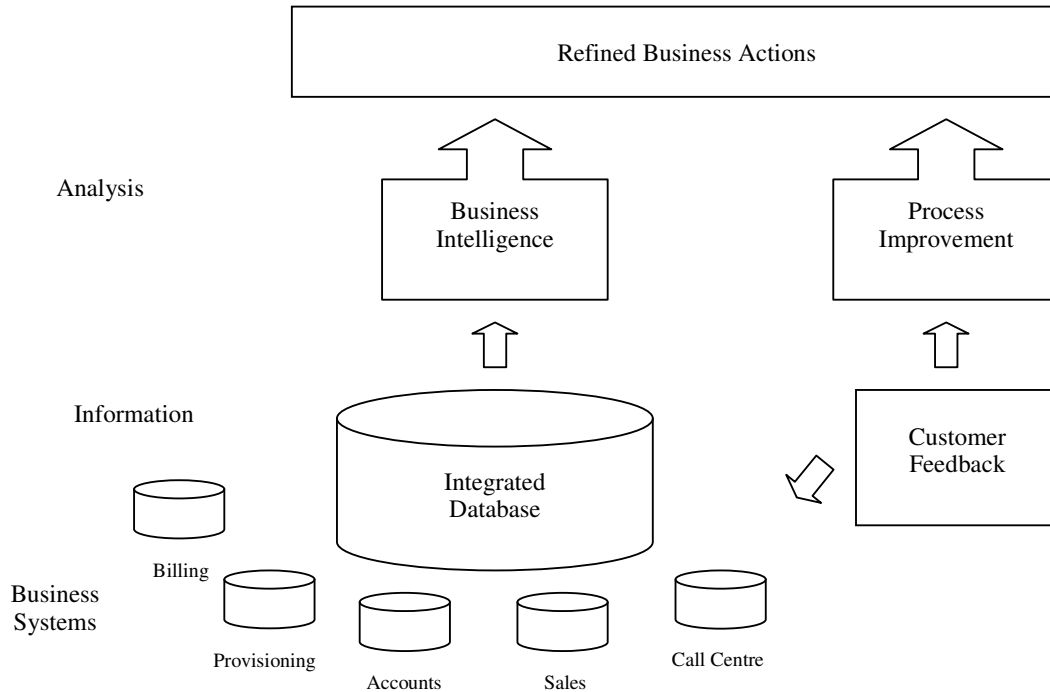


Figure 2: Analytical CRM: Understanding the Customer (Source: Dyche’, 2002)

2.4 CRM in Banking Sector (Objectives and Benefits)

Over the last eight years, banks are highly focusing on the CRM and are expected to continue (Foss, 2002). Dyche’ (2002) in his book propose that before implementing any CRM application, “the bank would need a complete view of its customers across the various systems that contain their data. If the bank could track customer behaviours, executives can have a better understanding, a predicting future behaviours, and customer preferences. In this way, the data and the applications will help the bank to manage its customer relationship and continue to grow and evolve”.

On the other hand, Foss (2002) in his work argues that most of the banks around the world are trying to use CRM techniques to achieve various outcomes. These are:

- creating consumer-centric culture and organization;
- securing customer relationships;
- maximizing customer profitability and,
- aligning effort and resource behind most valuable customer groups.

In a recent paper by Onut *et al.*, (2006), the authors describe that using the CRM system into the banking industry helps businesses (using technology and human resources) to gain insight into the behaviour of customers and focus on the value of those customers. If the CRM system works as hoped, the business can:

- provide better customer service;
- make call centres more efficient;
- cross sell products more effectively;
- help sales staff close deals faster;
- simplify marketing and sales processes;
- discover new customers and;

- increase customer revenues.

2.5 Types of Customers in Banks

In banks, customers are normally segmented into groups based on the number of products used and the balances held. Day (2000) in his paper describe two different types of customers which are involved with the banks. The customers with a low number of products and low balances in the banks are having a relationship with the banks which is known as “transactional exchange relationship”. With these customers, the focus of banks is to provide cost effective services. On the other hand, the customers which are holding many products and high potential balances may fall into the “value-adding” or “collaborative” relationship with the banks. The author further argue that the transactional exchange relationship may be transformed into value adding relationship when customers taken up staff recommendations for additional products such as investment or higher savings accounts perhaps with the automatic funds transfer to optimise interest. From the bank’s perspective, the account becomes value-adding because the number of products and services used by the customer increases and fees earned by the bank also increase.

In general, majority of banks around the world are dealing with these two types of customers. These customers most often approach the bank through its branch or call centre which is also referred as “customer contact centre”. To manage such relationship with customers, a branch and a call centre staff are responsible and having awareness of both bank product information and customer information.

2.6 Major Software Vendors of CRM in Banking Sector

Several CRM vendors are available for small, mid-size and large organizations such as: SAP, Siebel, Sales force, Amdocs etc. For banking sector, SAP and Siebel Systems are very popular and provide complete CRM solutions. In this section, we further discuss about these packages.

2.6.1 SAP

According to the article on (SAP, 2005) website, SAP was founded in 1972 and now it is one of the world’s leading provider of business software solutions. Today, more than 27,000 customers in over 120 countries run more than 91,500 installations of SAP software; from distinct solutions addressing the needs of small and midsize businesses to enterprise-scale suite solutions for global organizations. SAP for banking is an industry solution that combines mySAP™ business suite solutions and tailored functionality to meet the unique demands of financial institutions. With more than 550 customers in 60 countries worldwide, SAP for banking industry provides an integrated set of tools and automated processes to

manage every aspect of the front and back-office banking environment; from high-volume transactional banking processes and customer relationship management to financial accounting, cost controlling and profitability and risk analysis. Based on the open architecture of the SAP NetWeaver™ integration and application platform, SAP for banking helps companies expertly manage transactions and relationships across the institution to quickly identify and exploit market opportunities and easily tailor new products to the specific needs of individual customers (SAP, 2005).

2.6.2 Oracle’s Siebel System

According to the definitions from (Wikipedia, 2009a), Siebel Systems, Inc. was a software company which was principally engaged in the design, development, marketing, and support of CRM applications. The company was founded by Thomas Siebel in 1993. At first, the company was known mainly for its sales force automation products; the company expanded into the broader CRM market. By the late 1990s, Siebel Systems was the dominant CRM vendor, peaking at 45% market share in 2002. On 12th September, 2005, Oracle Corporation announced that it had agreed to buy Siebel Systems for \$5.8 billion. Siebel is now a brand name owned by Oracle Corporation.

Oracle’s Siebel Customer Relationship Management applications provide banking sector the power and flexibility to get the right information to the right person at the right time. With more than 20 industry specific solutions and fully hosted “on demand” or installed “on premise” deployment options, there is a solution to meet the unique needs of any organisation; from fortune 100 enterprises to small businesses (Oracle, 2008).

2.7 Major Banks in Pakistan

Pakistan is located in South Asia. It shares an eastern border with India and a north-eastern border with China. Iran makes up the country’s south-west border, and Afghanistan runs along its western and northern edge. The Arabian Sea is Pakistan’s southern boundary with 1,064 km of coastline. The country has a total area of 796,095 sq km and is nearly four times the size of the United Kingdom.

Pakistan’s banking industry comprises of both domestic as well as foreign banks. The State Bank of Pakistan (SBP) is the central bank of Pakistan which is located in Karachi (the financial capital of Pakistan), and its second headquarter is in the capital, Islamabad. According to the definition from Wikipedia (2009c), the State bank of Pakistan looks into a lot of different ranges of banking to deal with the changes in economic climate and different purchasing and buying powers. Some of the banking areas of domestic banks in Pakistan that the state bank looks into are:

- State Bank's Shariah board approves essentials and model agreements for Islamic modes of financing
- Banking sector supervision in Pakistan
- Micro finance
- Small medium enterprises (SMEs)
- Minimum capital requirements for banks
- Remittance facilities in Pakistan
- Opening of foreign currency accounts with banks in Pakistan under new scheme.
- Handbook of corporate governance
- Guidelines on risk management
- Scheme for agricultural financing etc (Wikipedia, 2009c).

Some well known private banks in Pakistan are: Habib bank limited (HBL), Muslim Commercial Bank (MCB), Union Bank, PICIC Commercial Bank etc. whereas; in the foreign banks, HSBC Bank, ABN Amro Bank, Citibank, Standard Chartered Bank Limited etc. are the major foreign banks in Pakistan.

2.8 CRM – Success Stories in the Banking Industry

Many studies have reported that banks which develop a customer-centric strategy get higher profits (Formant, 2000; Melnick *et al.*, 2000). Starting from the early services of ATMs, the banking industry then began to offer telephone banking, network banking, customer care centres, etc., which have gradually increased the investment in front-office systems, which itself is directly related to the customers (Liu, 2007).

Several banks in the United States, Canada and Europe etc. are ahead in responding to the customer related queries and provide better services at branch, call centre, and even using the internet banking. In this section, we present CRM success stories of banks in developed countries i.e., Canada and USA, and developing country i.e., Pakistan. These leading banks are known for their best customer support and services.

2.8.1 The Royal Bank of Canada

The Royal Bank which was formerly known as Royal Bank of Canada is one of the North America's leading diversified financial services companies and Canada's largest bank. In total, it serves more than 12 million personal, business, and public sector clients worldwide from offices in more than 30 countries.

According to a paper by Khirallah (2001), in which the author explained the CRM success case study about the Royal Bank of Canada. The author discuss that the bank's success with the CRM can be traced to a number of factors. First, the bank was an early adopter of a client information file (CIF) over 20 years ago. Second, the bank has aggressively used its customers data (a rolling 3 months of detailed transaction data and 18 months

of summarized customer data online in its data warehouse) to better understand its customers and create meaningful and actionable segments and customer strategies. Third, the bank's CEO and executive team vocally and visibly support the bank's CRM efforts. Finally, the Royal Bank is willing to experiment with CRM and learn from its mistakes.

The bank has led an aggressive effort to manage the quality of its interactions with the customers. In pursuing a customer relationship management (CRM) business strategy, the stated objective of the bank is "to capture the full potential of our customer base through the use of customer information to deliver the right solutions in a consistent, professional manner at every point of contact" (Khirallah, 2001).

2.8.2 Bank One of the United States

Bank One is a part of the new JPMorgan Chase created on July 1, 2004, and is famous for its "Service Quality". It takes its value discipline as the financial institution which provides Omni-bearing services, and adjusts its strategy to develop CRM and the internet from mergers and acquisitions (M&A). Furthermore, it has build up its virtual organization with strategic alliances and collaborative relationships (Intel, Metro Group, Merchants Group, etc.) to find out and satisfy the customers' needs quickly and directly. It has expanded its services with the promise of "no satisfaction, no charge" (Liu, 2007).

2.8.3 Union Bank (now merged with Standard Chartered Bank)

The success story of Union Bank is presented by Genesys digital library (2005). According to the paper, Union Bank was established in 1991 and had its headquarters in Karachi, Sindh, Pakistan. Before its recent merger with Standard Chartered Bank, the bank was Pakistan's eighth largest bank having 65 branches in some 22 cities, and around 400,000 customers. In 2006, Standard Chartered Bank acquired 81% of Union Bank's shares for US\$413 million. The merged bank is named Standard Chartered Bank (Pakistan) and is now Pakistan's sixth largest bank.

The Challenge

At start, the bank had no centralized customer service or telephone-based automated services available. Therefore, customers' data could not be tracked easily. To resolve the situation, the management team decided to create a call centre environment that would make the bank more accessible to its customers', and the customers' data would be easily accessible to the staff. Another goal was to expand the number of products available (e.g., credit cards) to customers' to satisfy demand and increase revenues.

The Solution

In May 2001, Union bank introduced its call centre, followed by integration with NCR's data warehousing solution, Teradata. According to the head of contact centre at the bank, "Teradata is capable of holding retrieving the complete banking history of all our customers, compared to the three months' worth of data that was previously available to staff. This makes it possible for managers to study behavioural trends and for the agents to quickly access the data they need when they are dealing with customers on the phone. So, at every level within the bank, decisions are made more quickly and based upon better information"

Results

According to the paper, a recent survey conducted by the bank after successfully implementing its call centre revealed that 87% of the bank's customers are highly satisfied with the service. Also, the bank's customer base has increased since 2001, and more people are moving from over-the-counter services to the telephone-based services. The solution has led to cost savings and more satisfied customers and staff (Genesys digital library, 2005).

3 Research Methodology

3.1 Research Approaches

In this section, we present the ways in which the research work can be approached. Research can be approached in various ways depending on the type of research to be conducted. Generally, in information systems, there are two different ways of conducting a research i.e., quantitative approach and qualitative approach. The Quantitative research technique is used to gather quantitative data such as information dealing with numbers and anything that is measurable. Statistics, tables and graphs, are often used to present the results of these methods (Wikipedia, 2009b).

According to Myers (2008), Qualitative research methodology was developed in the social sciences to enable researchers to study social and cultural phenomena. Examples of qualitative methods are action research, case study research and ethnography. Qualitative data sources include interviews and questionnaires, documents and texts, and the researcher's impressions and reactions.

3.2 Proposed Methodology for Current Research

The selection of a research methodology highly depends on the type of research which is to be carried out. Since, the nature of the current research is more qualitative as it does not require quantitative data such calculations, exact results, numbers and anything that is measurable. On the other hand, the current research is highly focused on social and cultural aspects. For that reason, a case study approach and its techniques seems

relevant for the nature of current research. Therefore, the current research is based on the qualitative research technique using the case study approach.

3.3 Case Study Research

According to Myers (2008), the term "case study" has multiple meanings. It can be used to describe a unit of analysis (e.g. a case study of a particular organisation) or to describe a research method. The discussion here concerns the use of the case study as a research method. Case study research is the most common qualitative method used in information systems (Orlikowski and Baroudi, 1991; Alavi and Carlson, 1992). Although there are numerous definitions for instance Yin (2003) in his work defines the scope of a case study as follows:

A case study is an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident (Yin 2003).

3.4 Data Collection Techniques for Qualitative Case Study Research

Yin (2003), argue that for conducting a case study research, the preparation for data collection can be complex and difficult. If they are not handled well, the entire case study investigation can be jeopardized, and all of the earlier work. The author further discuss that there are six sources of evidence available which are the most commonly used in doing case studies: documentation, archival records, interviews, direct observations, participant-observation, and physical artefacts. The data collection technique used for the purpose of current research is presented in the following section.

3.5 Interviews for the Qualitative Case Study Research

From the list of available qualitative data collection techniques, interviewing is the initial and most important component for conducting a case study research as it describes the exact requirements and provides the starting point for designing the case study approach. According to Yin (2003), while conducting an interview, the interviewer has two jobs: (i) to follow your own line of inquiry, as reflected by your case study protocol, and (ii) to ask you actual (conversational) questions in an unbiased manner that also serves the needs of your line of inquiry. Initially, from different banks across Pakistan, two different questionnaires were designed to conduct interviews from bank customers and employees in terms of the use of CRM. At least, ten persons volunteered for each questionnaire. The major questions used for these interviews are:

3.5.1 Interview questions from Customers

During the interviews from different bank customers in Pakistan, the main focus was to identify the problems customers are facing using the facilities from their bank. The interview questions asked from the customers are used from the following broad category.

- Products and services used by customers,
- Call centres,
- Response time of query,
- Speed of processing transactions,
- Security issues with internet banking, on-line shopping etc.,
- Convenience,
- Trust.

3.5.2 Interview questions from bank employees

In most of the Pakistani banks, CRM is operated by their I.T department which records and handles customer information. These banks have installed the latest CRM packages and have the most up-to-date computers. The interview questions asked from different I.T personnel and bank managers are based on the following broad category.

- The use of CRM (Its packages used by banks),
- Products and services offered by banks to its customers,
- Services in terms of business customers vs. individual customers,
- Dealing with customer queries,
- Interacting with customers,
- Data warehousing,
- Knowledge management,
- ATM machines (availability and its security issues),
- Customer service/ Call centres.

4 Findings from the Interviews

According to Kundi, *et.al.*, (2009), In Pakistan, eBusiness is still in its infancy but it is growing, where banking sector is playing a leading role. Yet the pace is slow because of many unfavourable conditions i.e., governmental, organizational and technological.

Even though most of the banks in Pakistan have invested on purchasing and installed the latest CRM packages. However, these banks especially in the rural areas of Pakistan are still dealing with a many problems. These problems are gathered from the interviews with different bank employees and customers. For instance, during the interview with a bank manager at a bank in rural area of Pakistan, the manager explains that, "very few customers are aware of Automated Teller Machines (ATM) and internet banking, others have no knowledge about it". Banks should realise that in order to keep their customers and attract new ones, they have to provide all the information about their services.

Otherwise, it would be hard for them to survive in the competitive market. Other major problem is that the I.T staff is not fully trained in terms of technology especially CRM.

To date, some of the other tentative findings from the interviews are concluded as:

- Currently, each branch services its own customers with no centralised customer service or telephone-based automated services. Therefore, customer data cannot be tracked and the concept of customer relationship management is virtually impossible.
- Customers have to restate their information whenever they interact with their bank, and the members of staff are unaware of the previous transactions and have no quick access to records.
- The I.T personnel at some of the banks are not fully trained to handle customer's information packages including CRM.
- The websites are overloaded with graphic data but are not clear, concise and informative.
- Most of the banks are not having up-to-date website to inform their customers about their latest products and services.
- In case of any changes in customer's account such as interest rate etc., some of the banks are not sending any letters or information packs via email or even 'slow snail mail' to update information for their customers.
- Major bank services such as: internet banking and phone banking are not available in more remote banks.
- In most of the banks, only a cash card is offered through which customers can only withdraw cash from selected cash machines. Without having credit or debit cards, customers are having problems to shop online.
- Call centres are less efficient and have limited opening hours.

5 Conclusions and Future Work

This paper is a part of ongoing PhD project which is based on improving the use of customer relationship management (CRM) in the banking sector of developing countries such as: Pakistan. In this paper, we have presented the background knowledge of CRM and uncover some of the major problems and weaknesses while using the CRM applications in the banking sector of Pakistan. Pakistan has been selected for the purpose of current research since the current CRM strategy in the banking sector is not acquiring desired results. To highlight some of the major problems, we have conducted several interviews from different bank customers and employees of

some well known banks in Pakistan. The findings of these interviews are presented in this paper. However, in order to improve the current CRM strategy, we have to perform a comparative analysis between the banks in Pakistan (developing country) and U.K (developed country). U.K banks are selected since they are more advance in terms of CRM implementation and the country is considered as one of the leading developed country. Listed below are a few targets which would be used for future work. Some of these major targets are:

- To conduct some interviews from different bank employees such as: I.T personnel, bank managers, accountants, cashiers etc. from some of the well known banks in U.K.
- To conduct interviews from different bank customers in U.K.
- To 'flushout' the weaknesses and deficiencies of CRM system in the banking sector of Pakistan.
- To perform comparative analysis between banking sector of Pakistan and U.K in terms of CRM implementation based on the obtained interview results.
- To design and suggest an ideal CRM strategy which covers the weaknesses and fulfils the requirements of CRM in the banking sector in Pakistan.

Several issues are also needed to be addressed before suggesting the ideal CRM strategy in the banking sector of Pakistan. These are:

- What are the cultural and political issues in terms of CRM implementation in the banking sector of Pakistan?
- What is the process for defining and implementing of a CRM system in a developing country context?
- How would CRM affect an overall banking business strategy in Pakistan?
- How can different 'customer touch points' be integrated in the banking sector?
- What are the key elements of a successful CRM system in Pakistani banking context?

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