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EFFECT OF CUSTOMER RELATIONSHIP MANAGEMENT ON FINANCIAL SECTOR IN INDIA

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Effect of Customer Relationship Management on Financial Sector in India

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Abstract – In today's business arena customers are prime asset for an organization and managing the customer relation is equally critical for the organizations. The overall success of the organization is dependent upon customer satisfaction and customer satisfaction cannot be achieved without managing the customer relations. The customer satisfaction model depends upon analysis of customer needs, expectations and interaction with the organization and its services. Customer satisfaction model is primarily related with customer relationship management in order to have the feedback about the perception of a customer about the organization and its perceived performance and meeting the expectations.

Key Word : Model, Customer Etc.

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INTRODUCTION

Strengthening financial systems has been one of the central issues facing emerging markets and developing economies. This is because sound financial systems serve as an important channel for achieving economic growth through the mobilization of financial savings, putting them to productive use and transforming various risks India's reform program included wide-ranging reforms in the banking system and the capital markets relatively early in the process, with reforms in insurance introduced at a later stage. Banking sector reforms included: **(a)** Measures for liberalization, like dismantling the complex system of interest rate controls, eliminating prior approval of the Reserve Bank of India for large loans and reducing the statutory requirements to invest in government securities.**(b)** Measures designed to increase financial soundness, like introducing capital adequacy requirements and other prudential norms for banks and strengthening banking supervision.**(c)** Measures for increasing competition, like more liberal licensing of private banks and freer expansion by foreign banks. These steps have produced some positive outcomes. There has been a sharp reduction in the share of nonperforming assets in the portfolio, and more than 90 percent of the banks now meet the new capital adequacy standards.

India's banking reforms differ from those in other developing countries in one important respect, and that is the policy toward public sector banks that dominate the banking system. The government has announced its intention to reduce its equity share to 33.33%, but this is to be done while retaining government control. Improvements in the efficiency of the banking system will therefore depend on the ability to increase the efficiency of public sector banks. Skeptics doubt whether government control can be made consistent with efficient commercial banking because bank managers are bound to respond to political directions if their career advancement depends upon the government. Even if the government does not interfere directly in credit decisions, government ownership means managers of public sector banks are held to standards of accountability akin to civil servants, which tend to emphasize compliance with rules and procedures and therefore discourage innovative decision making. Regulatory control is also difficult to exercise. The unstated presumption that public sector banks cannot be shut down means that public sector banks that perform poorly are regularly recapitalized rather than weeded out. This obviously weakens market discipline, since more efficient banks are not able to expand market share. If privatization is not politically feasible, it is at least necessary to consider intermediate steps that could increase efficiency within a public sector framework, these include shifting effective control from the government to the boards of the banks, including especially the power to appoint the chairman and executive directors, which is at present with the government; removing civil servants and representatives of the Reserve Bank of India from these boards; implementing a prompt corrective action framework that would automatically trigger regulatory action limiting a bank's expansion capability if certain trigger points of financial soundness are breeched; and acceptance of closure of insolvent public sector banks.

Unless some initiatives along these lines are taken, it is highly unlikely that public sector banks can rise to the levels of efficiency needed to support rapid growth. Another major factor limiting the efficiency of banks is the legal framework, which makes it very difficult for creditors to enforce their claims. The government has recently introduced legislation to establish a bankruptcy law, which will be much closer to accepted international standards. This would be an important improvement, but it needs to be accompanied by reforms in court procedures to cut the delays that are a major weakness of the legal system at present.

INDIA'S PRE-REFORM PERIOD AND FINANCIAL REFORM

Since 1991, India has been engaged in banking sector reforms aimed at increasing the profitability and efficiency of the then 27 public-sector banks that controlled about 90 per cent of all deposits, assets and credit. The reforms were initiated in the middle of a "current account" crisis that occurred in early 1991. The crisis was caused by poor macroeconomic performance, characterized by a public deficit of 10 per cent of GDP, a current account deficit of 3 per cent of GDP, an inflation rate of 10 per cent and growing domestic and foreign debt, and was triggered by a temporary oil price boom following the Iraqi invasion of Kuwait in 1990.

DRASTIC VERSUS GRADUAL PRIVATIZATION APPROACHES

While India's financial reforms have been comprehensive and in line with global trends, one unique feature is that, unlike with other former planned economies such as Hungary and Poland, the Indian Government did not engage in a drastic privatization of public-sector banks. Rather, it chose a gradual approach toward restructuring these banks by enhancing competition through entry deregulation of foreign and domestic banks. This reflects the view of the Narasimham Committee that ensuring the integrity and autonomy of public-sector banks is the more relevant issue and that they could improve profitability and efficiency without changing their ownership if competition were enhanced.

Since this approach was introduced, some criticisms have been expressed (Joshi and Little 1996). First, public-sector banks continue to be dominant thanks to their better branch coverage, customer base, and knowledge of the market compared with newcomers. Second, public-sector banks would find it more difficult to reduce personnel expenditure because of the strong trade unions. Third, the government would find it difficult to accept genuine competition within public-sector banks. In response to these concerns, the government decided to gradually expand private-sector equity holdings in public-sector banks, but still avoided the transformation of their ownership. The 1994 amendment of the Banking Act allowed banks to raise private equity up to 49 per cent of paid-up capital. Consequently, public-sector banks, which used to be fully owned by the government prior to the reform, were now allowed to increase non-government ownership. So far, only eight public-sector banks out of 27 have diversified ownership. Meanwhile, a consensus is emerging that state ownership of banks is bad for financial sector development and growth (World Bank 2001). Based on data from the 10 largest commercial and development banks in 92 countries for 1970-1995, La Porta and others (2000) have found that greater state ownership of banks in 1970 was associated with less financial sector development, lower growth, lower productivity, and that these effects were greater at lower levels of income. Barth and others (2001a, 2001b) have shown that greater state ownership of banks tends to be associated with higher interest rate spreads, less private credit, less activity on the stock exchange, and less non-bank credit, even after taking into account other factors that could influence financial development. This suggests that greater state ownership tends to be anti-competitive, reducing competition from both banks and non-banks. Barth and others have also noted that applications for bank licenses are more often rejected and there are fewer foreign banks when state ownership is greater. Moreover, Caprio and Martinez-Peria (2000) have shown that greater state ownership at the start of 1980 was associated with a greater probability of a banking crisis and higher fiscal costs [8].

RBI AND GOVERNMENT

During the early 1960s, Governor Ingra identified four areas of potential conflict between the Bank and the central government. These were interest rate policy, deficit financing, cooperative credit policies and management of sub-standard banks. It may be of interest to note that these four areas are still some of RBI's concerns.

During the post-reform period, the relationship between the central bank and the Government took a new turn through a welcome development in the supplemental agreement between the Government and the RBI in September 1994 on the abolition of the ad hoc treasury bills to be made effective from April 1997. The measure eliminated the automatic monetization of Government deficits and resulted in considerable moderation of the monetized deficit in the latter half of the Nineties. At the same time, with gradual opening up of the economy and development of domestic financial markets, the operational framework of the RBI also changed considerably with clearer articulation of policy goals and more and more public dissemination of vast amount of data relating to its operations.

REFORMS IN INSURANCE SECTOR

The insurance sector, in many respects, was most in need of reforms in 1991, being completely nationalized at the time. The public-sector Life Insurance Corporation had a complete monopoly on life insurance and pension products while the General Insurance Corporation, operating through four subsidiaries, monopolized general insurance.

The government not only owned the insurance companies, it also performed the role of regulator. As it happened, the pace of change in this area was much more gradualist than elsewhere.

Year	Surplus Balance	Investment Reserves	Total Liabilities Assets	Investments in Central Government Securities (at Cost)
1990-91	271	76	**787**	678
2000-01	3205	261	**5749**	4874
2001-02	3687	261	**6600**	5453
2002-03	4683	261	**7584**	5999
2003-04	5037	259	**8740**	7079
2004-05	6942	475	**11797**	9363
2005-06	8077	641	**14102**	10284
2006-07	9767	954	**17008**	12194
2007-08	11809	1050	**20853**	14399
2008-09	14339	929	**25515**	17268
2009-10	16877	1661	**29682**	21532
2010-11	17101	1691	**31682**	21932
2011-12	18423	1705	**32982**	23432

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