

CUSTOMER-CENTRIC BANKING: TRENDS, PRACTICES AND CHALLENGES IN INDIA

Abstract

Innovation has triggered rapid digital transformation in almost every sphere of industry, including financial services. Of late digital transformation and changing expectations of new breed customers have induced a shift in core processing, prodding financial institutions to shift focus from core features and products towards creating delightful customer experiences. Customer-centric banking seeks to understand customers' actual needs, preferences and priorities instead of restricting customers to choose from a fixed menu of services offered by the bank. Under this approach through innovative banking leveraging the evolving digital technologies banks would attempt personalisation and customisation of banking services, to cater to the specific needs and preferences of new breed customers. This article attempts to highlight the emerging trends, practices, challenges and issues involved in this process and the way forward.

Introduction

Customer-centric banking strategy or approach seeks to understand what customers actually need, their preferences and priorities rather than compelling customers to choose from a fixed menu of services offered by the bank. The objective here is to innovate banking products, services, and experiences to cater to the specific needs and preferences of new breed customers. In this framework the banks need to actively listen to their customers with ears close to the ground. Bank may use various available feedback channels to capture the data/information on revealed consumer



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behaviour and their changing preferences and choices by extraction of meaningful information on nuanced predictive insights to build up deep multi-dimensional insight into customers motivation, behaviour and emotional landscape, using advanced data and business analytics. Intent of this exercise is to roll out a bespoke, transparent, and trustworthy banking experience across the entire service delivery topology, be it in-branch, online, via mobile and anywhere and everywhere. Customer centric banks make earnest efforts to enhance loyalty and promote holistic wellbeing of the clients and in the process accrue a comparative advantage in the competitive market environment.

In a customer-centric business model customers are at the pivot of every point of interface viz., design, marketing, sales, product development, and support. While the legacy models are focused on short-term revenue and/or product features, in a customer-centric model the emphasis shifts to building of trust based long-term associations through enhancement of assured and dependable incremental value dispensation. It calls for a shift in paradigm. The following cardinal points need be kept in mind in this regard. Capturing and using of data and feedback to precisely appreciate the customer journey and related experiences of discomforts latent or apparent, inherent therein

1. To enhance cross-functional collaboration, teams may be aligned appropriately across departments to serve the customer better.
2. With a view to giving a touch of personalisation each customer in each service may be treated as special by reengineering the outcome experiences and communications to effectively cater to the individual customer needs.
3. The customer service team must be empowered with requisite tools and authorities for quick and proactive resolution of emerging issue.

Relevance of customer centric approach in Indian banking scenario

India is a country of large population representing one of the largest consumer markets in the world. However, it has wide regional diversities. There persists glaring diversity in income, education, culture, and lifestyle. Therefore, Indian consumers' choices, preferences and expectations vary widely across regions and demographics. Rapid increase in use of smartphones, increasingly better internet access, and spectacularly expanding digital payment systems both in terms of transactions volumes and values have made Indian consumers more conversant, demanding, and decisive in switching brands in quest of better value and service. Due to structural changes in banking in the midst of rapid digital transformation the bank customers' needs and expectation have under gone a sea change. In this milieu today's Indian customers look for faster, seamless, and personalized banking services comparable to those offered by fintech firms and digital platforms. Delays, complex procedures, and insipid services may quickly result in disappointment and consequent triggering of switching behaviour.

Indian banking terrain witnesses intensified business competition with the entry of private banks, small finance banks, payment banks, NBFCs, and fintech companies. Adoption of customer-centricity approach would enable banks to differentiate themselves in terms of delivery of superior service quality rather than only pricing or product range.

For catering to the varied needs and preferences of

highly diverse Indian population in terms of income, literacy, geography, demography and digital access, it is only a customer-centric approach that would enable banks to design appropriate products and services and delivery channels to effectively cater to the specific needs of respective population segments viz., rural customers, MSMEs, senior citizens, and first-time digital users.

With UPI, mobile banking, AI-driven services, and data analytics, banks are in a position to better understand customer preferences, needs and behaviours. Customer-centric banking paradigm envisages leveraging of technology to enhance convenience, security, and services rather than merely automating the internal processes.

Indian regulators have been exhorting increasing emphasis on customer protection, fair practices, grievance redressal, and transparency. A customer-centric culture helps banks comply with regulatory expectations while building trust and credibility. Banking business is fundamentally trust-based. Customer-centric approach would lead to improvements in transparency, communication, and service consistency, and concomitantly enable inculcation of stronger long-term relationships with clients and higher customer lifetime value.

Satisfied customers, who are more likely to remain loyal, use multiple products, and recommend the bank to others, indeed constitute block of intangible assets for the bank which tends to reduce customer acquisition costs and enhance sustainable profitability.

Thus, in the Indian context, customer-centric banking is not merely a service philosophy but a strategic imperative. Banks that can align products, processes, technology, and culture around customer needs, are better positioned to achieve greater financial inclusion, better regulatory compliance, significant competitive advantage, and sustained long-term growth.

Elements of Customer Experience in Banking

Customer Experience is the resultant impact of all direct and indirect interfaces between a customer and a bank, which tend to configure the customer's emotions, satisfaction, trust, and loyalty. The key elements of customer's experience may be enumerated as below;

- ⊙ Ease and convenience of service
- ⊙ Quality and consistency of interactions
- ⊙ Emotional connection and trust
- ⊙ Responsiveness and problem resolution
- ⊙ Personalization and value delivery

It may be pointed out that in banking and financial services customer experiences are critical as products are often similar across banks. Trust and reliability matter the most. Therefore, service quality turns out to be the main differentiator.

Traditional vs modern customer experience

While traditional customer *experiences are* about “serving customers” *Modern customer experiences* are about “delighting customers” Traditional banking involves visiting a branch, filling forms, waiting in queue within limited-service hours. In modern banking accounts may be opened online. KYC formalities could be completed instantly. There would be personalised offers and services with 24/7 support and quicker grievance redressal.

Trends in Customer-Centric Banking in India

i) Digital banking and mobile-first approach

Digital banking envisages delivery of banking services using electronic channels viz., mobile apps, internet banking, UPI platforms, and APIs, providing customers access to financial services anytime and anywhere reducing dependency on physical branches, speeding up transactions, and resultantly enhancing operational efficiency. In mobile-first approach smartphones are in focus of banking strategy in designing products and services primarily for mobile users. Mobile penetration is high in India and therefore this approach has transformed banking through instant payments, account opening via e-KYC, personalized alerts, and seamless integration with daily life apps. Digital banking and mobile-first approach have greatly improved customer convenience, promoted financial inclusion, lowered transaction costs. It has been supporting banks to stay competitive in a fast-evolving financial ecosystem.

ii) UPI and instant payment systems

UPI and other instant payment systems facilitate mobile device based real-time transfer of funds

between bank accounts 24×7 dispensing with the needs for traditional details like account numbers and IFSC codes, relying instead on simple identifiers such as mobile numbers, QR codes, or UPI IDs. These systems have transformed digital payments by making transactions fast, secure, and low-cost. In India, UPI has popularised less cash approach among individuals, small merchants, and large businesses. Instant payments with reduced dependency on cash, tend to increase speed, volumes and ease of doing business besides improving liquidity.

iii) AI and chatbots for customer support

Artificial Intelligence (AI) and chatbots are transforming customer support in banking by providing instant, round-the-clock assistance. They can handle routine queries such as balance checks, transaction status, card blocking, account information, and FAQs without human intervention. By using machine learning and natural language processing, chatbots understand customer intent and provide personalized, accurate responses. This improves response time, reduces operational costs, and enhances customer satisfaction. AI-driven support also allows human staff to focus on complex and high-value customer issues, making banking services more efficient and customer-centric.

iv) Omnichannel banking (branch, mobile, internet, call centres)

Omnichannel banking integrates all customer touchpoints—branches, mobile apps, internet banking, and call centres—into a single, seamless experience. Customers can start a transaction on one channel and complete it on another without any disruption or repetition of information. This approach ensures consistency in service quality, real-time data synchronization, and personalized customer interactions across all platforms. Omnichannel banking enhances convenience, builds trust, and improves customer satisfaction by giving customers the flexibility to choose their preferred channel while enjoying a unified and efficient banking experience.

v) Personalization of services using data analytics

Personalization using data analytics involves

analysing customer data such as transaction history, spending patterns, preferences, and behaviour to offer tailored banking products and services. Banks can provide customized offers, appropriate product recommendations, timely financial advice, and personalized alerts. This approach improves customer engagement and satisfaction by making interactions more relevant and meaningful. It also helps banks to enlarge cross-selling opportunities, manage risks better, and build stronger long-term relationships with customers through a more customer-centric banking experience.

vi) Paperless and contactless banking services

Paperless and contactless banking services involve use of digital processes to complete transactions and customer onboarding dispensing with submission of physical documents or face-to-face interaction. Services viz., e-KYC, digital signatures, online account opening, and electronic statements are paperless and involve shorter processing time. Contactless technologies such as NFC cards, QR code payments, and UPI enable quick and safe transactions without physical contact. These services enhance convenience, improve operational efficiency, reduce environmental impact, and support safer banking, especially in situations requiring minimal physical interaction.

Role of Technology in Enhancing Customer Experience

⊙ Artificial Intelligence and Machine Learning

Artificial Intelligence (AI) and Machine Learning (ML) have been changing customer experience by making service bouquets much smarter, speedier and more personalized. Their value added impacts are discernible across the entire gamut of customer journey in regard to several service attributes. For example services are more personalized than before with 24×7 Intelligent Support. The customer needs are predicted and acted upon. Customer problems as and when arising are being resolved quicker than before. Fraud Detection has become quicker and Security measure are heightened. Dispensation of cost

effective services of consistent quality have become seamless. Automation of Routine Tasks empowers the customers to their delight. Thus, AI and ML have reconfigured the customer experience from being reactive to proactive, from generic to personalized, and from slow to instant, making them powerful tools for building customer loyalty.

⊙ Big data and analytics

Big Data and Analytics convert large volumes of customer data into meaningful insights and actionable strategies. Big Data and Analytics support organizations to tread from hitherto intuition-based decisions to insight-driven strategies, enabling personalized, proactive, and high-quality customer experiences.

⊙ Cloud computing

Cloud computing improves customer experience by making services more scalable, faster, reliable, and innovative. It provides the technological spine for many modern, customer-centric digital services. Cloud computing tend to enhance organizational agility, responsiveness, and innovativeness on which is built the foundation for delivering seamless, personalized, and reliable customer experiences.

⊙ Cybersecurity tools

Trust and safety are central to customer experience. Therefore cybersecurity tools forms a core pillar of a customer-centric approach. A sense secured feeling prompts the customers to engage more confidently with digital. Cybersecurity is not just about protection; it is about enabling a safe, reliable, and worry-free experience that strengthens long-term customer relationships.

⊙ Automation and process digitization

Automation and process digitization make services faster, more accurate, and more convenient for customers. In customer service, automation and digitization transform operations from slow and manual to fast, transparent, and customer-friendly, significantly improving overall satisfaction and loyalty.

Benefits of Customer-Centric Banking

- ⊙ Improved customer satisfaction and loyalty
- ⊙ Higher customer retention
- ⊙ Competitive advantage for banks
- ⊙ Increased operational efficiency
- ⊙ Better brand image

Challenges in Implementing Customer-Centric Banking in India

⊙ Digital divide: Spatial & demographic

Persisting digital divide across regions and demographics pose major challenges in implementing customer-centric banking in India. Urban and younger customers are quick in adopting mobile banking, UPI, and app-based services. But, a large segment of rural populations faces constraints like poor internet connectivity, low smartphone penetration. Inadequate digital literacy among ageing customers also tends to slow down the process of adoption of digital channels of banking. Language barriers, accessibility issues, and fear of digital fraud further dampen adoption. In this backdrop while the banks have been increasingly shifting services to digital channels, there is possibility of these segments being stragglers. Bridging this divide would need inclusive design, assisted digital banking, vernacular interfaces, and continued support through physical branches and human touchpoints.

⊙ Cybersecurity and data privacy issues

With the intensification of focus on digital and data-driven customer engagement, cybersecurity and data privacy have been posing critical challenges to customer-centric banking. The increasing incidence of phishing, identity theft, and digital fraud would tend to undermine customer trust, particularly the first-time and vulnerable users. Besides, extensive use of customer data that would be involved in the process of intense personalization, would give rise to issues and concerns around consent, data misuse, and compliance with evolving data-protection regulations. Any breach or service disruption has the potential to significantly damage a bank's reputation and

erode customer confidence. Therefore, banks need put in place robust cybersecurity systems, effective continuous monitoring frameworks, effective authentication mechanisms, and transparent data-governance practices and balance innovation with trust and customer protection.

⊙ Low digital literacy

Low levels of digital literacy is a persistent and significant barrier to effective customer-centric banking in India. Many customers particularly the senior citizens, and first-time digital users, find it difficult to understand and attain proficiency in using mobile and banking applications and online transactions. These weaknesses often trigger errors, transaction failures which entail dependency on intermediaries, and heighten vulnerability to fraud, thereby tend to weaken the confidence in digital banking channels. These impeded effective adoption of customer-centric digital solutions resulting in increased service and grievance-handling costs. Addressing these issues and challenges calls for sustained financial and digital literacy initiatives, user-friendly and intuitive interfaces, multilingual support, and assisted banking models that empower customers to engage safely and independently with digital financial services.

⊙ Resistance to change posed by customers and staff

Resistance to change is a key challenge in implementing customer-centric banking in India, affecting both customers and bank employees. Many customers, especially older and long-standing account holders, prefer traditional branch-based interactions and are hesitant to trust digital channels or automated services. Similarly, bank staff may resist new technologies, process reengineering, or performance metrics focused on customer experience, due to the fear of redundancy, increased workload, or lack of adequate training. This dual resistance can slow down digital adoption and dilute the effectiveness of customer-centric initiatives. Overcoming this challenge requires structured

change-management strategies, continuous training and upskilling, clear communication of benefits, and incentives that align employee performance with improved customer outcomes.

⦿ Infrastructure and connectivity issues

The internet connection is unreliable or uneven in remote rural areas and in the last line. It works well sometimes and poorly (or not at all) at other times. Low bandwidth and frequent power outage and limited availability of reliable digital infrastructure often disrupt online and mobile banking services, leading to transaction failures and poor customer experience. These issues impair the effectiveness of digital-first strategies and reduce customer confidence in technology-enabled banking. All these entail higher service costs and operational inefficiencies.

⦿ Regulatory and compliance constraints

Adherence to stringent regulatory norms related to KYC, AML, data protection, consumer protection, and risk management may tend to limit flexibility in designing personalized and frictionless customer journeys. Frequent regulatory changes and reporting obligations also add to operational complexity and costs, and may slow down innovation and digital rollouts. Therefore, a fine balance need be maintained between regulatory compliance and customer-centric innovation by putting in place a robust compliance framework and through proactive engagement with regulators.

Future scenario of Customer-Centric Banking in India

By 2030, a larger part of day-to-day banking would be put through digital channels instead of physical branches which would then cease to be transaction points. However, the branches will be functioning more as advisory and complex-service hubs. In the coming decades AI will mechanize routine tasks and also enrich the qualities of human-assisted services enabling banks to customise their services catering to individual customers' needs and preferences. Financial services will get greatly democratized and would be more competitive and customized. Inclusive

digital banking will reconfigure and upgrade the scenario of rural participation in economic activities promoting small business growth, financial planning, and infuse greater confidence in formal finance. Security and transparent customer governance will be vital pillars especially as personalised, digital services expand. In the emerging digital era of customer centric approach banking will be having more human face, empathetic, and relationship-driven instead of being cold, mechanical, or purely transactional.

Conclusion

Customer-centric banking in India has been undergoing the process of transformation through rapid digitalization, data-driven personalization, and a strong push toward financial inclusion. AI-enabled service delivery, omnichannel engagement, and embedded finance are redrawing the contours of banks' interface with customers with best practices focus on convenience, transparency, and trust. However, there are challenges posed by the legacy systems, increasing customer grievances/complaints and accentuating cybersecurity risks. In this milieu balancing of innovation with regulatory compliance would continue to test the sector. Meeting effectively the emerging challenges would require both technological investment and cultural transformation within banks. Indian banks that would be able to successfully integrate customer perceptions with resilient systems and deliver responsive governance will be better positioned to boost customer satisfaction, reinforce trust, and attain sustainable growth in the emerging increasingly competitive financial eco system. **MA**

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