CHAPTER 3
THEORETICAL FRAMEWORK

3.1 INTRODUCTION

The theoretical framework of the study is literally the frame or the structure which holds or supports the theory of research. It helps the researcher determine the course of research as what to measure, what statistical tools need to employ to analyze and interpret. The theoretical framework is a representation of relationships of variables under study. In statistics, the theoretical framework gives clarity to relationship between the independent variables, dependent variables and the moderating variables. If the theoretical framework is the theory on which the study is based, the conceptual framework is the operationalization of theory. This helps linking ideas and data to reveal deeper connections amidst the study by helping conceptualizing the problem.

Bliss et al (1983) suggests that the framework is a two-process method which helps the researcher during the research

1. Scope to think about the research and conceptualize the problem, and
2. As a means of connecting theory and data for establishing connections

In this chapter, the scholar elaborates the process which leads to the development of hypothesis based on the pattern developed.
3.2 AN OVERVIEW OF INDIAN BANKING

History of Indian Banking

In early and medieval India, business houses carried out banking. These indigenous bankers performed the most basic function of banking, namely lending loans, mainly to other businessmen. They also provided credit to the royal treasury, especially in times of contingency. It was from their family wealth surplus and own funds they used for lending. But they did not accept deposits from any one. The interest they charged on loans, was their income. This was similar to contemporary banking practices globally. They ‘Shetty’ community especially in Maharashtra is an example of indigenous banking communities. They were thus basically money lenders, and constituted only one half of the modern banking functions.

The introduction of banking in its present form can be attributed to the fruits of European invasion, especially the British. The other three groups of Europeans, namely, the French, the Dutch and the Portuguese do not take claim for contributing to the development of banking in India. The Bank of Hindustan is the first bank in India, along with The General Bank of India. These banks were formed towards the close of the 18th century, precisely in the year 1786. It was this period in Indian history, which witnessed the start of Modern Banking.

The British Raj in India established three presidencies, the first was the Presidency of Calcutta, the major stronghold of the British in India, to be followed by the Presidency of Bombay, today’s Mumbai and the Presidency of Madras or now called Chennai. The British introduced the banks in the Presidencies, in their interest for smooth financial transactions. The Bank of Calcutta established in 1806 at present day Kolkata is the first presidency bank. This is the original predecessor of State Bank of India, India’s largest bank. The Bank of Calcutta changed into the Bank of Bengal, three years
hence in 1809. The second presidency bank was the Bank of Bombay established in 1840. The third and last of these banks was the Bank of Madras established in 1843. These three presidency banks were amalgamated in 1925 to form the Imperial Bank of India. The Imperial Bank was Indianised or nationalised in 1955 post independence as State bank of India. Thus the State Bank of India is the longest surviving bank in India.

After the formation of the presidency banks which gained prominence, some other banks were formed in different parts of India. Some of them continue to date, whereas some others have failed as is seen in the history of banks and banking in modern India. Union Bank was established in Calcutta by a group of local entrepreneurs in the year 1939. But nine years later, following the crisis in the economy the bank collapsed. A similar fate met with some other banks too, the Oudh Commercial Bank, founded at Faizabad, in the year, when it broke in the year 1958, post-independence. The Bank of Upper India formed in the year 1863, is now history, after its failure in 1913, in the pre-independence age itself. Some other banks established in India around these times survive even to date, the one claiming to be the senior most, other than State Bank of India is the Allahabad Bank, founded in the year 1865. Another one is the Punjab National Bank, a Lahore based bank, founded in 1895. This is today a major PSB and among the “big five” banks in India. A few years from 1906, witnessed the establishment of banks all through the length and breadth of British India. This was triggered by the Swadeshi movement, which provided inspiration for the opening of banks in order to streamline and coordinate the nation’s finances. A number of people belonging to the entrepreneurial community and those with national feelings laid the beginning of many banks pan India. Though some banks perished pre-independence and some post-independence, many banks remain to date. They could withstand the World wars and the Great Depression. Karnataka based, Canara Bank and Corporation Bank, Maharashtra based Central Bank of India and others like Bank of India, Bank of Baroda and so on are some banks which were born in the early twentieth century, still surviving in the twenty first century.
The Presidency banks initially performed a part of the Central bank’s functions in the economy. This was continued by the Imperial Bank of India. The need for a central bank in the economy gained ground, with the intention of regulation of the system of banking. It was decided in the year 1934 the formation of a central bank, and it was named Reserve Bank of India. The initial functions of the RBI was currency issue and to functions as government’s banker. The RBI used the services of agency from Imperial Bank of India. After India became independent, the government made a decision as to nationalize the central bank. As a result the central bank was nationalized in the beginning of 1949 or precisely the first day of 1949 according to the concerned act. The ownership of the Reserve Bank is vested with the Government of India. The nationalization facilitated co-ordination between the central bank and the central government for better decisions and actions in order to facilitate the new-born economy and nation. This process of nationalization of the RBI was immediately followed by the rolling out of the Banking Companies Act, the same year. The intention was monitoring the activities of the commercial banks nationwide. This act got converted into the Banking Regulations Act.

The constitution of the central bank, its powers and the functions of the RBI are enshrined in its Act. They include issuing of legal tender, ensuring a stable monetary system with statutory reserve of funds and effective operation of credit and currency. RBI is banker to government and last resort lender. Credit regulation is assisted by discounting and rediscount facility of promissory notes and bills of exchange. RBI also has the right to audit banks and issue penalty for not adhering to its guidelines and violating the conditions of the BR Act. More than the RBI Act, the BR Act makes provision for guiding banks and bankers. Definition of banking is seen here. It is accepting public money deposits to invest or lend. The repayments of the deposit was facilitated through withdrawal instruments. Concerned restrictions and prohibitions for banks are made clear in this Act. Conditions suitable for declaration of dividend is specifically mentioned. Likewise are mentioned situations which need RBI approval. The Act has provisions for reserve funds, shareholding, and capital.
The recommendations put forward by the All India Rural Credit Survey Committee which culminated in the nationalization of SBI, further led to the absorption of major state owned banks which were floated with royal patronage. The seven associates of State Bank of India were thus formed supported by the concerned act of Parliament in the year 1959. These seven banks were first called SBI Subsidiary banks according to the Subsidiary Bank Act. Later they were called associate banks. The entire State Bank group was formed with the objective of catering to the needs of the wider society. The associate banks had SBI as their controller and functioned according to its dictates. SBI enjoyed full ownership of SBH and SBP, and was the major shareholder in the other five banks.

The associate banks include

- State Bank of Hyderabad
- State Bank of Bikaner and Jaipur
- State Bank of Travancore
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Saurashtra

These eight banks, apart from their function as commercial banks, acted as the central bank’s agent. They opened currency chests on the behalf of the RBI and undertook management of public accounts, central as well as pertaining to respective states of their origin.

Under the initiative taken by the then Prime Minister Smt. Indira Gandhi in 1969, fourteen commercial banks floated by individuals, business houses or collectively by likeminded people were nationalized. They had to satisfy criteria regarding figures in deposits and capital, networking and number of branches and so on. This move to transfer private banks to state ownership was to bring the entire nation under the cover of banking. In the pre-nationalization period, banking was less accessible to the public.
Nationalization provided nationwide presence of banks catering to the needs of all cross sections of society. Agriculture was the first priority those days as India was a new nation and feeding the teeming millions was the first task at hand at national level. Funds were needed for large scale agriculture which was the agenda of the first five year plan. Lending to agriculture was made a priority, which even continues today. The second five year plan focused on industry, which again had fund requirements. Banks after nationalization would work not according to the rules of their propagators, serving their specific target groups, but would work for the cause of national development in accordance to government guidelines. Agriculture, housing, education, small businesses, small scale industry which is further classified into micro, small and medium industries based on capital, come under priority sector lending.

If in 1969, fourteen banks with deposit above fifty crore of rupees were brought under the purview of the state, in 1980 this was repeated on six banks with deposit above two hundred crores. Of these banks, New Bank of India got later taken over by Punjab National Bank. This took the count of a total of twenty seven Public Sector Banks. SBI, seven associates and nineteen other banks. This large scale nationalization led to economic development nationwide, ensuring social justice as envisaged by the government and the planning authorities.

It was observed that despite nationalization of banks with the object of covering the whole nation under banking, rural areas needed special focus. There could be limitations on the part of these government banks to cover every aspect of the economy. Agriculture, always was of prime importance because of catering to food needs of the population. It also was inclusive of cash crops providing revenue to the state. Rubber, arecanut and so on are examples of cash crops. Farming was seen more in the rural areas and thus connected with rural credit. Again agriculture was region-specific. The climatic conditions and the geography influenced farming patterns. So credit too needed to be tailored according to the requirements. For example certain crops are short term crops, yielding produce within one or two years. Likewise
there are also crops like rubber which take years for fruition or reaping. So the repayment of the farmer who had availed of a loan for that particular crop would be fixed in accordance to his reaping the crop. Else the farmer would not be able to repay the loan from the return of his crops. He would have to service his loan payments from own or borrowed funds. It was very unlikely rather impossible for farmers, especially decades back to own any funds. Borrowing from money lenders or others to repay the loan would be a greater burden, and this would go against the government aim of trying to bring everyone under the cover of banking. So rural credit needed to be region specific, with the banker having the rural composition of the target area and the farming patterns. With this intention, the Regional Rural Banks (RRB) were introduced in the year 1975. This was after the Narasimham Committee which studied the multiple aspects of rural credit and banking and recommended the formation of banks to cater to the specific needs of rural credit. The RRBs were meant to supplement the activities of commercial banks too. The RRB was confined to a specific state and would have a nationalized bank as its sponsor bank. In the state of Kerala, Kerala Gramin Bank (KGB) is the RRB sponsored by Canara Bank. KGB was formed by the merger of two banks, South Malabar Gramin Bank, with Canara Bank as sponsor and North Malabar Gramin Bank, sponsored by Syndicate Bank. In Karnataka, CHIKO Bank of Chickmagalur Kodagu Gramin Bank is a RRB and has Corporation Bank as its sponsor. The shares of RRBs are held by Government of India, the respective governments of state of banks and the sponsor banks. RRBs have played a crucial role in the nation’s rural credit. It could bring an unbanked rural population under the comfort of banking to pool their small savings as well as extend loans for their betterment. It went an extra mile than nationalized banks with rural branches or co-operative banks and societies in rural areas. RRBs could pass over the government sponsored benefits and subsidies to the rural and agrarian customers. Small businessmen in village areas, farmers, rural artisans and craftsmen and women have benefitted from this initiative. Economic development with social justice could be brought about to a wide extent. Almost two decades hence the concept of Local Area Banks was introduced by the Central Government to convert the deposits or small and big savings of
the rural community into investments in the concerned areas for development of localized areas. Thus these banks could route and connect availability of credit in semi-urban areas along with rural areas. These banks have all activities of commercial banks. Their geographic limitations however demanded higher capital adequacy ratios to be maintained, to mitigate potential risks, thus could occur. The only difference with commercial banks is that they are localized and area specific, as indicated by the name itself. The government provided licenses to six entities to function as Local Area Banks and four alone as functional.

Following bank nationalization, the method adopted by the banks were in keeping with a sellers’ market. Banks, thus could decide, select and prioritize their customers. The customers had very little choice. Towards the late eighties, during the Prime ministership of Shri. Rajiv Gandhi, soft liberalization was introduced in Indian banking. This gave the customer some choices when compared to what they earlier had. This paved way to the banking reforms as Liberalization, privatization and globalization. The Narasimham Committee recommended licenses be given to new players, including private banks and foreign banks. This would usher in a spirit of competition among the banks which would bring about increased efficiency and delivery. The reformations made in the financial sector led to a multitude of changes which continue even to date.

Banks in India which come under the Reserve Bank second schedule are scheduled banks. This has protection from the RBI Act. Commercial banks are usually scheduled banks. Co-operative banks need to satisfy certain guidelines issued by the central bank to appear in the schedule. Other co-operatives are non-scheduled. This denies them certain privileges enjoyed by the scheduled banks. Scheduled banks have certain privileges than non-scheduled. They are:

- Currency chest
- Clearing membership
- Credit refinancing of RBI
Indian banking witnessed a four staged nationalization process, namely the one in 1955 nationalizing the SBI, SBI associates in 1959, nationalization of 1969 or the nationalization as it is referred to when 14 private banks were nationalized and the repetition of it in 1980. Nationalization means making national or owned by the government. This was for the benefit of the nation, which means the people or public. However in finer terms of banking parlance, State Bank of India is not a nationalized bank, strictly speaking it was not a product of the bank nationalization which occurred in 1969 or 1980. But for all practical and or operational purposes it is considered so. SBI came under the purview of the SBI Act. SBI, SBI associates, RRBs and the nationalized banks are together called PSBs or Public Sector Banks. As indicated by the name, banks for the public, whose ownership is by the government. PSBs could either be wholly owned by the Government of India or the GoI would be majority shareholder, that is a minimum of 51% of the shares of the bank would be owned by the Government. A method of identifying the government stake in the banks was the identification given in Banks’ boards. Banks like Indian Bank, Syndicate Bank would have the mention of wholly owned by the Government of India, whereas banks like Corporation Bank would mention a Government of India Enterprise on its boards. These banks of Public Sector category have to function under Government of India’s directives and abide to its stipulations and commitments ensuring social justice, especially in the nature of priority sector lending, interest subventions, subsidies and the like. Some banks which were functional along with todays nationalized banks did not get nationalized during both the stages. Many of them exist even today. Some of these banks are Federal Bank, Karnataka Bank, Laxmi Vilas Bank, Karur Vysya Bank, Jammu and Kashmir Bank and so on. These banks are the old generation Private Sector banks. It was earlier Private Sector Banks. The prefix of old generation, is to distinguish the private banks in India following the banking reforms of 1991. The private banks after 1991 are called New generation banks as their systems and practices of business and operations are in with revised globalized standards. These new generation banks were floated by financial institutions catering to insurance, mutual funds, credit, development banks and so on, and other business houses which fulfilled eligibility criteria.
as prescribed by the GoI and the RBI. Licenses were issued post 1991, precisely from 1993 onwards. HDFC Bank was floated by Housing Development and Finance Company, Axis Bank, earlier known as UTI Bank by Unit Trust of India, an entity into Mutual Funds. Other banks are the IndusInd Bank floated by the Hindujas, IDBI Bank was floated by Industrial Development Bank of India. IDBI Bank is now nationalized by the government and is a PSB. Other new generation banks include Kotak Mahindra Bank, ICICI Bank, Yes Bank and so on. Some new gen banks had a short life span and are not in existence today, despite being born during the 1990s. They faced mergers and amalgamations within two decades of inception itself. Global Trust Bank was taken over by the PSB Oriental Bank of Commerce. Centurion Bank, which is now part of history had a multi-dimensional amalgamation. The bank took over an old generation bank, the Bank of Punjab, to be called Centurion Bank of Punjab. Centurion Bank of Punjab took over Lord Krishna Bank, a Kerala based old generation private bank, and soon was amalgamated into the HDFC Bank! These new generation banks ushered a fresh lease of competition into the Indian banking scenario. The new gen banks occupied a vantage position in terms of information technology aided banking services, better banking ambience, customized products and services, range of products etc when compared to the PSBs and old generation private banks. Such a situation compelled existing players to be updated on products, services and delivery. The banks had to move on to a computerized platform and come up with new products or same products with different variants and even name it. For example a housing loan with a bank would be given a name with part of the bank’s name, like the home loan at Corporation Bank would be called ‘Corp Home’. This trend resulted into more of customer choices, better services offered by banks, easier access to credit by the public, all which led to customer centric banking or in economic parlance to a buyers market. More and more players are coming up with government licenses, inducing more competition.

Indian Banking System can be classified into three major heads:

- Co-operative Banks
Commercial banks are those banks which cater to the basic banking or financial needs of the general community like deposits and investments, loans, thus contributing to the economic and social growth as well as to sustainable development. Acceptance of deposits and lending loans are the main functions of these banks. Along with this, commercial banks are to perform certain ancillary functions too. They are collecting and discounting cheques and bills, remittance facilities like demand draft, bankers cheque, mail transfer, telegraphic transfers, Issuance of Bank Guarantees, issuing Letters of Credit, locker facility and safe custody. Section five and six of BR Act give an account of the functions expected of commercial banks. Commercial banks in India can be further classified into:

- Public Sector banks
- Foreign Banks
- Private Sector banks

The very names of categories indicate the ownership patterns of the banks. The PSBs have majority of government share and private banks do not have any government shareholding. It is usually by a group of people or trusts. These banks have private management, but have to comply with certain government guidelines and are not free from RBI dictates and commands. Foreign banks are those banks with overseas registered offices and engage in banking business in India through their branches within the nation. They can have either branches or wholly owned subsidiaries. These banks are actively involved in international banking, which is facilitated by their global presence. This makes foreign exchange business comparatively easier with foreign banks. At the same time they are involved in domestic banking too. They have prescribed parameters for especially lending, they cannot abstain from priority sector development. Foreign banks are answerable to a number of monitors in India itself, apart from their parent nation. Along with satisfying GoI and RBI requirements, they need to satisfy demands put forward by other
regulating bodies like IRDA and SEBI. Citibank, Standard Chartered Bank, HSBC are some main foreign banks. Commercial banks since of late, involve in other services too. Some of them are:

- Mutual Funds
- As executers and trustees
- Merchant Bank Functions
- Bancassurance- selling insurance products on bank counters
- Precious Metals sale, mainly gold
- Credit Cards
- Investments and counselling
- Tax consultancy

These functions are carried through either subsidiaries or specialized departments. For example, State Bank of India is corporate agent of SBI Life for life insurance and SBI General for general insurance – bancassurance. The bank has subsidiaries namely SBI Caps for Capital Markets, SBI Gilts in shares, SBI Mutual Funds and so on.

Co-operative banks have always played a major part in the national financial system, especially from the grass roots. These are legal entities with registration from either of the governments, central or of the concerned state of origin. These banks are basically societies and are referred to even as a ‘society' than bank by the public. The Central Co-operative Society Act controls those banks with presence in more than one state. For those banks restricted to the state of origin, state laws parallel to the Central Act takes charge over. In addition to this they are bound by other regulators, compulsory for banks like the Acts of RBI, BRA and GoI guidelines. The members of the bank are vested with shares of the bank. They cater to banking needs of almost all natures, namely, agriculture, small business, small scale industries, self-employment or entrepreneurship in all areas, irrespective of rural or urban. Anyhow rural areas have benefitted the maximum out of co-operative banking, mainly owing to proximity of the bank.
with the customers, familiarity, lesser procedures and simpler terms. But co-operative banks have certain limitations, like for example they have no right to equitable mortgage of property as security for a loan account. They have to resort to registered mortgages through proper registering authority. Rural co-operatives function as a hierarchy. At the base are PACS or Primary Agriculture Co-operative Societies. These credit institutions are of the nature of short term institutions. The next level is that at the district, the DCCB or District Central Co-operative Bank. They balance the primary bodies and the state body at the apex. This is accompanied with a certain level of difficulty as well, because of expectations from the state, performance at the base by the PACS. More than thirty five lakh rural farmers have benefitted from co-operative credit. Long term co-operative institutions include those at the state level. There are State Co-operative Agriculture and Rural Development Banks. Urban Co-operatives are the parallel co-operative banks of PACS in semi-urban and urban areas. The UCBs were limited to only non-agrarian lending until 1996. They are also classified as Non Agricultural Credit Institutions in under Co-operative Credit Structure. They could lend for trade and small borrowings. These banks can even operate in multiple states and are not geographically limited. Some UCBs come under the RBI schedule and are scheduled banks. They should have five lakhs as minimum reserves and paid up capital.

The Industrial Finance Corporation of India was established in the year 1948. This marked the beginning of the system of Development Banks in India. Some of the development banks are:

- EXIM (Export Import) Bank
- SIDBI or Small Industries Development Bank of India
- National Housing Bank
- IDBI or Industrial Development Bank of India
- NABARD or National Bank for Agriculture and Rural Development
These are few among the sixty and odd development banks nationwide wide either at central or at state levels. The state financial corporations are supported by the provisions of the SFC Act in the year 1951. These banks cater to the development of targeted segments like agriculture, industries, small industries, international trade, housing and many more. NABARD is into the field of agriculture and rural development. Its establishment was in accordance to a 1982 Act of Parliament. NABARD issues policies for its specialized segment, chalks plans and carries out operations, of course with government guidelines and support. The bank comes with programmes specific to time and geography and the immediate need. NABARD offers refinance to banks for agricultural and rural development loans. The aim of refinance is to prevent depletion of the resources of commercial banks and RRBs through subsidized loan schemes and subventions. The benefit should be passed on the individual beneficiary, without burden on the lending bank. The general banks alone have direct access to the target group, unlike development banks, which play in the back stage of development. NABARD also has the objective of building a self-sufficient co-operative and RRB credit structure and system. NABARD conducts its activities district wise. Some of its activities include dispensing of credit, promotion and development and last of all supervisory function. It plans, operationalizes, supervises, supplements and evaluates activities for developing the rural areas, with prime thrust on agriculture. It opts for a decentralized approach to reach out through the grass roots facilitating development. The activities are at a triple level at block, district and state, similar to the co-operative banking structure. There is periodic evaluation following implementation of the plans and policies. NABARD issues stage wise guidelines in dispensing of credit by the financing institutions. It also intervenes in the marketing of rural produces, of both agricultural and non-agricultural activities. NABARD facilitates Rural Financial Institutions like Co-operatives and RRBs with development functions. A classical initiative by NABARD to facilitate development to the last is the SHG (Self help group) bank linkage programme. It enables microcredit for the development of individuals and families by entrepreneurship. This is typical microfinance keeping in with Gandhian views of ‘Sarvodaya’ or development of all. The bank constantly updates with research and development, new
societal trends and systems for chalking out new plans and issue of policy
guidelines. NABARD is at the apex of the nation's agricultural and rural
development. NABARD occupies similar position with the central bank with
regard to supervisory functions. RRBs and Co-operative banks are
accountable to NABARD.

The year 1989 witnessed the establishment of the Small Industries
Development Bank of India (SIDBI). This development bank focuses on small
industries, which is classified into three, based on capital: the largest one or
Medium industries, followed by small industries, with micro industries at the
lowest level. SIDBI finances MSME (Micro Small and Medium Enterprises). It
acts as a coordinator to all bank finances to its specified segment. SIDBI is a
GoI enterprise, headquartered at Lucknow, with national presence through
branches nationwide. SIDBI too believes in decentralization through grouping
at different levels, cluster, state and the like on the hierarchy. Banks provide
long term and short term credit to MSME accounts. SIDBI offers guarantee of
credit offered by banks to MSME, through CGTMSE or Credit Guarantee
Trust for Micro Small and Medium Enterprises. This is a classic function of
SIDBI, which protects both the credit providing bank and the customer
through insurance cover in case of a genuine loan default, owing to reasons
beyond control. Each of an MSME account is allotted a unique number or a
permanent account number called CGPAN (Credit Guarantee Permanent
Account Number). The asset thus purchased for commercial or industrial
purposes gets insured at a fee. This enables SIDBI to update according to the
changing trends and needs and update with new policies and plans. SIDBI
works in collaboration with NGOs (Non Governmental organisations),
voluntary agencies and other agencies for betterment of the small industry
sector. SIDBI undertakes promotional and development function along with
financing and insuring. The bank conducts enhancement of industrial units
through technological interference like adoption of new technology and
technological upgradation. Loans are provided in domestic as well as foreign
currency for industries into foreign exchange business. Credit is offered as
short term and long term and also as working capital. It supports banks
financing small industries. Bill discounting is another function for realization of
the proceeds of sale by the units. SIDBI emphasizes on labour intensive
techniques than total automation for provision of employment to a larger
number of people. This is in keeping with the national interest of equitable
development or development with social justice. SIDBI conducts periodic
study and research in the field of MSME for further development. The concept
of CGTMSE is one such instance. This contributes to the larger national
economic scenario by putting a check on the NPAs (Non-performing assets)
of banks, initiated by small industries credit.

A development bank catering to the development of housing is NHB or
National Housing Bank established in the year 1988, under the NHB Act of
1987. It looks after the institutional credit flow into housing sector. The bank is
a subsidiary of the RBI in the housing segment. Its ownership is wholly by the
RBI. However, the bank has to act according to central government guidelines
also. NHB is the regulator of Housing Finance Companies in India. It
refinances the credit to home loans given by banks and other financial
institutions like LIC (Life Insurance Corporation) which are not into banking.
Apart from individual housing loans, so many other house like projects come
under the ambit of NHBs. They include development of land, property
development, projects on shelter by public agencies and building or buying
houses or residential units by institutions catering to housing finance and
credit. NHBs also provide refinance to primary co-operative housing societies.
Other aims of the NHB include making affordable housing credit, provide
encouragement to public organizations to supply and facilitate land for
construction of houses, to help multiple areas and people of varying income to
be served by institutions catering to this need. RBI is considering transferring
the ownership to the GoI, for smoother regulation, on payment from the
central bank.

EXIM Bank has as its project, export and import finance. This bank was born
in the year 1982. The shares belong to the central government, or it’s a GoI
concern. The prime aim of the bank is the facilitation of India’s international
trade. EXIM Bank co-ordinates activities of institutions which finance imports
and exports. The bank supports financially the exporters by credit in domestic
currency or foreign currency. This could be utilized for expanding business, acquiring new technology and or equipment, to set up additional facilities or enhancing those existing ones. The bank emphasizes extending Lines of Credit to foreign parties. In the age of globalization, the bank assists domestic concerns through all stages of export business. This includes the technology importing, developing the products, the actual production, and marketing, packing credit, post shipment like release of the proceeds of the export bill through purchasing, discounting or even negotiating if accompanied by an LC (Letter of Credit) and investing abroad. EXIM Bank has a department for research and development, for improving the nation’s global trade. The bank, in this interest, finances the R&D programmes of exporters. It is in the nature of a term loan to a limit of 80% of the research estimated cost. The bank has initiated a project to better the competitive spirit and capability of Indian exporters to keep in with international standards. This marketing programme helps traders identify potential partnerships and business associations, to acquire overseas companies and to extend business to other countries. Apart from financing and guiding EXIM Bank provides educates the exporters in evaluation of risk which could surface in the international scenario, on how to seize an opportune moment for export, to be more competitive and thus rise to global standards of overseas trade.

**Banker Customer Relationship**

The banker customer relationship is basically based on the nature of products availed by the client or the services offered by the banker. To accept deposit and to lend the money are the core functions of a banker. There are many other ancillary service offered by the banker in addition to the basic banking services such as: safe custody of articles, safe deposit lockers, collection of client’s cheques as an agent. On the basis of different services availed by the clients and offered the banker, the relationships can be: creditor and debtor, debtor and creditor, Bailee and bailor, agent and principal.
The basic features of a banking company operating in India are:

1. Dealing in money: The banks may accept the public deposits in various forms such as Savings Bank account, Current Account, Fixed deposit or recurring deposit and lend or advance it to the needy public in the form of loans.

2. Deposits needs to be withdrawn by the depositors: The deposits other than the nature of fixed deposit or recurring deposits are in the form of withdrawable and when the customer wishes. He can withdraw the amount through a withdrawal slip or cheque or by debit-ATM card through ATM.

3. Dealing with loans: banks are known to be the creators of credit, a unique feature associated with banking.

4. Commercial operation: Banks are working with the aim of making profit and hence known to be commercial in nature.

5. As an Agent; Along with the basic banking services, banks perform many duties as agent of customers, often with a fees charged.

CUSTOMER

In India, the term customer has not been defined by the law. In general terms hence a person has an account with a bank, he is considered to be a customer of the bank. Some of the judgments have emphasized the “duration theory” as the basis of reference of a customer. This refers that there needs to be a reasonable period of association of the client to be designated as customer with a bank. However, the recent development have discarded this arguments.

We can find definition for the term customer in the recently introduced Know Your Customer or KYC rules of Reserve Bank of India. As per this definition, a person who maintains a bank account can be considered as a customer and it cannot be insisted that the customer must have operated the account for certain period of time. As per the guidelines, a depositor with single deposit also can be defined as a customer of the bank. The dealings of the customer with a banker should be in the context of banking. As a bank does a lot of other services than the core banking functions, the availing of such services
may not constitute him eligibility as a customer. The bank is engaged in
issuing bank draft as a remittance instrument, and a person who purchases a
draft need not be designated as a customer of the bank. In similar case if a
person is holder of cheque from other person, goes to the bank encash it,
then also, he will not become a customer of the bank. As these persons are
not dealing with the core functions of the bank, they cannot be regarded as
customer of the bank. These are casual dealings not in the nature of long
standing relation with an intention to create a customer relationship.

As such, in order to establish a customer banker relationship the following
essential features need to be there in the relationship

a) The person needs to have an account in the nature of current, savings
or any loan account etc.

b) The person needs to have dealt with the bank for banking needs

The customer need not be essentially an individual, but a team of individuals,
a Joint Hindu Family, a Public limited company, a private limited company, a
partnership, a government department who availed the account services of
the bank and so on. The Banking Regulation Act 1949 (BRA), Sec 45Z
clarifies that a customer can be a corporation or government department as
approved by authorities.

As the relation of a customer with a banker is of the nature of a contract, a
person who is able to enter into a contract can be made a party to banking
contract. In India, the person needs to be 18 years or more of age to become
eligible to enter into a contract and fulfills other requirements such as to be
mentally sound. As a customer service and marketing strategy banks are
also allowing minors, of age below 18 years, to open account but with certain
restrictions on operations and amount of balance. It is for the banker to
decide whether r to open an account of a person based on the documents
produced by him. Before the advent of KYC rules, the depositor was to be
introduced by an existing account holder of the bank, to open an account.
This introducer used to be a person who conducts his account satisfactorily
with the bank. Various banks followed different criteria for opening account in
pre-KYC period which caused many confusion and created lack of uniformity for opening accounts. After opening and making the initial deposit the relation of a debtor credit starts between the customer and banker. It is presumed that the customer has lent the money to the banker on certain conditions such as giving interest, safekeeping for a fixed period etc. As a credit the customer can demand his money back as and when he wishes to do so, provided no other contracts have been entered otherwise. The payment needs to be done with legal tender currencies and coins. As long as the account is in credit balance the relation exist as a debtor creditor. The deposit insurance was introduced in Indian in 1962 and the risk of the depositors minimized as the Deposit Insurance Credit Guarantee Corporation (DICGC) insures upto a specified amount of deposit of each customer.

Once the account of the customer is overdrawn the relationship is reversed. Then the banker becomes the creditor and customer becomes the debtor and this status will continue until the loan is repaid in full and complete. The advances and loans are given on security of some tangible asset such as land, building of the customer and the banker becomes a secured creditor. In the case of debt in commercial transactions such as in banking transactions, there are some special features such as:

1. There need to be a demand from the creditor for repayment of the loan. The customer will pay it on the specified date or before that date as per the requirements of the contract.

2. The demand for repayment to be done at proper time and place. IN the case of demand drafts etc. the bank undertakes to pay it at a particular branch, to where the draft is drawn

3. The demand for repayment of debt to be made in a proper manner as prescribed by the terms of the contract. In the case of deposits, the customer can demand the money through a withdrawal slip, cheque, ATM debit card or through electronic medium such as online banking.

The banker is a debtor in case of deposit but he acts as a trustee of money deposited in some other circumstances. As a trustee of money performs acts
for the beneficiary’s benefits. In case the customer deposits safe deposits articles with a bank, the banker acts a trustee. The owner of the items is the customer, and the bank is a trustee. As such the position of the bank is different from that of a debtor. The banker’s position as a debtor or a trustee is ascertained by the situations in every case. In the case of ordinary business course of banking, and when the customer has not given specific directions, generally the position of the banker is a debtor in case of money deposited. In the case of bank sending a cheque for collection on behalf of his customer, the banker is a trustee but after getting the money and crediting it to the customer’s account the banker becomes a debtor to the customer.

Under Section 148 of Indian Contract Act 1872, the bailment, Bailee and bailer have been defined. Bailment can be defined as a goods delivery by one for some specific purpose, based on a contract, to another person. The contract would specify that in fulfilling the contract, the Bailee must return the goods or items to the bailor. When the physical possession of the security items are held by the banks, it becomes a pledge, as in the case of a gold loan.

The Transfer of Property Act defines lessee, lesser and lease. As far as the bankers are concerned in case of safe deposit lockers they lease it to the customers on a rent, collected yearly half yearly etc. The bank permits the locker account holders to access the lockers at specified time and use it for safe keeping at the customers risk and responsibility.

**Lending Activities of a Bank**

Lending is always associated with inherent risks. In order to mitigate the risks, banks adhere to certain principles. As banks are parting with funds, which is their capital and products, they need to ensure the safety and repayment of their resources. Banks are becoming more prudent and judicious in lending. Principles of lending are divided into the following areas:
1) Activity- which is again subdivided to, Principles of
   a) Profitability
   b) Safety of funds
   c) Liquidity
   d) Purpose
   e) Security

2) The individual- This area is very important as the survival of the bank is dependent on the repayment of the loans it lend to public. So the repayment capacity and repayment intentions are very important for the banker. The bank needs to ensure that the loan is given to the right person for the right kind of activity. This process is further divided into:
   a) Lending process
   b) Five C principle of lending- Capacity, Character, Collateral, Condition and Capital

Information on the customer is an essential feature of loan processing. The customers background checking is being done by the bankers themselves or it has been outsourced in many cases. The history of the customer in social behavior as well as financial dealing have a crucial predictable outcome for the prospective loan repayment.

There are various sources to collect information on the customer.
1. Information provided in application form
2. Other banker reports
3. Statements related to financials of the borrower or his firms
4. Income Tax returns
5. Personal interview of the bower by bank officials
6. Inspection of the business unit
7. Collecting information from social media
8. Enquiry with neighbors
9. Verification of CIBIL reports
The information provided in the application is primarily given by the applicant himself. It is a kind of self-declaration by the customer. So it needs to be corroborated with facts and documents. All the important statements in the application form such as name, address, job, salary, land holding, assets etc. can be verified with supporting documents. Reserve Bank India has come up with Know Your Customer (KYC) policy and specified certain documents which can be accepted by banks for identification of the customer. In some cases, where the firm or individual has loans with other banks, a bankers report is required by the prospective banker. This report include a general opinion by the present banker about the conduct of the account and credit worthiness. The financial statements such as balance sheet and trading account of his firm gives a clear picture of the financial status, present loans etc. of the borrower firm. In case of salaried person, the salary certificate produced can be verified by employment verification with the employer and genuineness can be ascertained. The income tax returns of the borrower can be corroborated with his documented income such as income from business, agricultural income, salary, pension etc. Personal interaction by bank officials can bring out lot of information and give light to his present financial status. Also during the inspection of his home or firm the banker will get clear picture of the financial status of the borrower and running of the firm and affairs. During this inspection, bankers usually interacts with the neighbors to get opinion about the borrower and general perception on him by the local people. As a new trend, bankers have started checking social media such as Facebook to know the lifestyle, social status etc. which may give light of his income level, spending habits which will affect the loan repayment. Also, verification of CIBIL report has been made mandatory in many banks as a pre requisite for loan sanction.

While giving loans, the banker is concerned with the security being pledged. The security for the loan can be movable or immovable. Movable assets such as vehicles, gold etc. can be hypothecated or pledged with the bank as a security for the loan availed by him. The security quality depends on
1) Value of the security and stability
2) Marketability
3) Easiness of ensuring the value, title and quantity
4) How easy to transfer the title
5) The nature of perishability
6) Absence of any other liability on the security
7) The yield or return from the security

The stability in value is an essential part of the security. If the value is volatile on high frequency, it may not constitute as a good security. If the security is a share and the value is in a diminishing trend for a long period, it may not be a good bet for the bank as a security. If the asset is not easily marketable, and the bank needs to invest more to make marketable, it may not be a good security. In the case of land security, if the land piece secured does not have proper access, the land will not be marketable and not many buyers will be there if in case of a forced sale of the security. Also, the title and quantity needs to be verified in an easy manner, and not expected to be cumbersome. The value of the security is measured differently for different kinds of securities. In case of gold, the value is measured by an appraiser engaged by the banker. In case of land and building, it is done by a charted engineer, engaged by the bank for the purpose. In case of stocks the valuation is taken by chartered accountants with different models of valuation. All these valuations need to be confirmed by banks officials.

The transferability of the security is also an important component of the security for a banker. In case of a landed property, if the property has got a minor right, the property would be bad for transfer of the title, because the transfer of the right of the minor will have many issues later. So banks may not accept this land security as a good security. The perishability, or the duration the security will remain is also a matter of concern for the bank. Security such as goods of nature of vegetables etc. may last only for days make it perishable in the short run. IF the security has any prior charge on it, such as if the land property has claim form the government or some attachment order connected to it before securing the asset to the bank, the
banker will be at loss. In the case of some securities, there would be some income generated. If the security is a fixed deposit, there would be periodical interest generated, which can be used for repayment of the loan and this ensures prompt repayment.

Safety of the funds lend is a prime concern for the bankers. It is meant that the borrowers are in a financially able position to repay the installments which include principal and interest of the loan. The loan repayment is primarily depends on the willingness of the customer to repay and his capacity to pay back the loan. In case the customer is successful in his attempts to earn income and extract profit out of the activity he is engaged in, he will be able to repay the loan promptly. Otherwise the banker has to look for disposing the security assets to recover the loan amount. As such it is very important for the banker to ensure that the loan is sanctioned for a successful and viable project. In case of housing loans, vehicle loans etc. where income is not expected from the asset created out of the loan, the consistency of income form salary or other sources have to be ensured before sanction of loan. This reiterate the need to satisfy that the borrower is a person of good character, integrity and capability. Liquidity of security asset is a prime concern for the banker while accepting a security. If the security can be liquidated after long time it may not be preferred by the banker. The banks are commercial institutions. They have to refund the depositors with the interest amount offered by the bank to them. Staff expenses and shareholders dividends are also to be met from the operations of the bank.

Generally the interest rates of loans are determined by the banks themselves. With acute competition in the market, to win over the customers, the rates have been lowered no new scales, such as the rate of housing loan was above 12% per annual whereas today, the rates hovered around 8-9% per annum. The need for business and the net margin which the banks are ready to sacrifice show the competition prevailing in the market. With more and more housing development companies and cooperative banks are in the fray the retail segment, which consists of loans to individuals for house construction, vehicle purchase, education, consumption purpose etc. Look
out for new customers are the key to the bank as well as retaining the existing ones. In the housing loan market, takeover of loans have become very common. This is possible by the banks by convincing him, about the benefits he gets once he switch over the existing loans to a particular bank. The banks are ready to forgo the processing charge and other fees and offer the takeover loans at easy terms and lower interest rates.

There are loans advanced on unsecured terms, Such as Personal loans, Education loans, upto a certain limits etc. In these cases as the risk is more to the bank, usually the interest rate charged is high. The banks generally tie up with corporates or firms to give personal loans to their employees. The repayment to these loans are ensured by deductions from the employer and the banks get bulk business. In the case of personal loans the banks depends on the honesty and integrity of the borrower rather to security. In the case of educational loans, the parent is also made a party to the loan, in order to make the parents also liable for repayment. Generally as the student is a minor, or below 18 years of age, he is not eligible to enter into loan contracts and the parent enter into the contracts on behalf of the student. Banks do not lend loans for speculative and purposes which are not productive.

An integral part of retail loan processing and sanction is verification of credit information available from credit information bureaus. Almost all banks have made it compulsory to verify each borrower’s data from such agencies in each loan case.

**Credit Information Companies**
As a customer approaches a bank for a loan, the bank is concerned about his capacity to repay the loan, and his intention to repay the loan. History of his past repayments can be an indicator of his future behavior to great extent. Here the CICs help the banks to get the past loan data. The credit information bureaus are governed by the CICRA Act 2005, which is applicable to financial institutions as well as such companies
Such companies collect credit data including credit repayment history of the accounts from financial institutions, collate them and share with the financial institutions. The repayment capacity as well as the repayment history can be traced by the lending banker now, by accessing the report of CICs. At present there are four major such companies registered in India:

1. Credit information Bureau (India) Ltd. (CIBIL)
2. Equifax Credit information Services Pvt.Ltd.
3. Experian Credit Information Co. of India Pvt.Ltd.
4. Highmark Credit Information Services Pvt.Ltd.

The CICs report in two categories, positive data and negative data. The negative reporting is usually relates to:

1. Arrear amount of loan
2. Particulars of defaulted loan
3. Court attachments to the loan/security
4. Other information of adverse nature.

In case the borrower or customer has account with another bank anywhere in India, the data will be captured by the CIC report and reflected in the report. The report is generated based on various search parameters such as name, date of birth, identification document number, Aadhar number, PAN etc. As the report shows other particulars such as address etc. the same can be cross checked with the customers’ application for correctness. Generally the customer does not disclose the defaulted loan, if any he has with any other bank. This not only affects his credit history and integrity, but also the repayment capacity. He may not be able to service many loans at a time, with his certain income alone, and will not be eligible for multiple loans.

The positive data includes the list and particulars of accounts opened and closed during the period. As such the credit information bureaus have become an essential part of retail lending decisions in India,
3.3 PRELIMINARY THEORY DEVELOPMENT

The main factors influencing continuance intentions on the part of the customers are satisfaction. The customers have certain expectations from a bank. If the service is good and expectation is met, the customer considers a continuing business relationship. It is summarized as

- Expectation
- Service excellence
- Continuance intentions

3.3.1 Customer Expectations

Every customer in a service industry has a set of expectations, small or big. Sensing the customer expectations remains crucial to the service provider, as that could influence the delivery of service. A customer approaches a bank with a level of expectation, out of word of mouth, or by default as in the case of salary accounts of companies and corporates. It might also be owing to proximity from work or home or even other commitments as convenience of parents, spouse or wards who are out of station. Whatever be his motive to open an account, he is guided by some expectations, depending on his requirements as well. Realization of his requirements leads to fulfill his expectation and an extra mile of expectation as prompted by basic human nature, and which can be expected in any service industry.

The customers expectations can be classified into two, namely minimum expectation, without which there is no purpose of transacting and ideal expectation, which varies from customer to customer, and is relevant is assessing service excellence. This is similar to Parsuram’s classification of expectation into

- Adequate expectation, emphasizing the minimum, and
- Desired expectation, emphasizing the ideal expectation
3.3.2 Service Excellence

Service excellence plays a prominent role in a service industry. Giving the customer a bit more than what he expects improves quality in transactions, leading to service excellence. Service Excellence should satisfy customer expectations, usher in customer satisfaction, which would in turn leading to enduring relationships or continuous intentions.

With the competition in banking sector is increasing and supply is more than demand, in virtual as well as physical banking sector, the scenario is changing from sellers’ market to buyers’ market. Many banks are after singly customer offering various business on negotiable rates. This was a situation which would not have been through of some years back. Tailor made schemes for customers are made by the product design team of individual banks to attract cluster of customers. For example Union Bank of India has formulated a scheme for giving credit facilities to plywood manufacturers in Ernakulam area. Banks have devised different products for deposit and loans for students, salary class, pensioners’ senior citizens and corporate employs. The design of products are backed by technology such as debit cards, credit cards, mobile wallets etc.

Access ease to bank branches, simplicity in process and procedures for availing a loan or opening an account, reliability of the bank and its image among public, and the dependability of the service of the staff deciding factors for the customer to choose and decide whether to continue with the particular bank for longer time.

Parasuraman significantly considers the role of customer expectations in service quality and excellence.

**Figure 1:** Preliminary theory development

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Expectations → Service Excellence → Customer Satisfaction → Continuance intentions
```
The scholar identifies some areas of interest or customers’ choices regarding expectable services from transacting with a bank. The significant variables assumed to leading to continuance intentions on the part of the customers are:

- Physical Convenience
- Process Convenience
- Product Convenience
- Self-service technology Convenience
- Reliability
- Tangibility
- Promotional Excellence
- Service excellence
- Price Sensitivity

### 3.3.3 Continuance Intentions

The key objective is to study the critical variables or the determining factors which lead a niche customer to select a bank and have a Continuous intention for banking business and relationship. Service excellence leads to customer satisfaction. This leads on to retention of customers, or continuance intentions on the part of the customer. “Loyal customers, they don’t just come back, they don’t simply recommend you, they insist that their friends do business with you.” — Chip Bell

The researcher tries to study the moderating effect of Price sensitivity on service excellence, which determines continuance intentions.
3.4 THEORETICAL MODEL

Figure 2: Theoretical Model for Study
<table>
<thead>
<tr>
<th>Sl No</th>
<th>Variable Name</th>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Physical Convenience:</td>
<td>Uni-dimensional with 5 reflective items</td>
</tr>
<tr>
<td>2</td>
<td>Process Convenience:</td>
<td>Uni-dimensional with 7 reflective items</td>
</tr>
<tr>
<td>3</td>
<td>Product Convenience:</td>
<td>Uni-dimensional with 5 reflective items</td>
</tr>
<tr>
<td>4</td>
<td>Self-service Technology Convenience:</td>
<td>Uni-dimensional with 6 reflective items</td>
</tr>
<tr>
<td>5</td>
<td>Reliability :</td>
<td>Uni-dimensional with 6 reflective items</td>
</tr>
<tr>
<td>6</td>
<td>Tangibility :</td>
<td>Uni-dimensional with 5 reflective items</td>
</tr>
<tr>
<td>7</td>
<td>Promotional Excellence :</td>
<td>Uni-dimensional with 5 reflective items</td>
</tr>
<tr>
<td>8</td>
<td>Service Excellence :</td>
<td>Multi-dimension with 5 dimensions (Staff quality, Customization, Clarity in policy, Service recovery, Technology quality) all measured in reflective manner and second order in the formative way</td>
</tr>
<tr>
<td>9</td>
<td>Price Sensitivity :</td>
<td>Uni-dimensional with 5 reflective items</td>
</tr>
<tr>
<td>10</td>
<td>Continuance Intention:</td>
<td>Uni-dimensional with 5 reflective items</td>
</tr>
</tbody>
</table>
Explanation of Variables
Operational Definition

Physical Convenience
Physical convenience are factors which are offered by the bank for the customer to feel attracted and for ease of access to the branch. These measures include parking facilities, proximity to office or home, in the main area of the city where the customer can access better etc.

Process convenience
This refers to the factors which simplify the business and or banking processes, as applications and documentations taken at the convenience and time of the customer, hassle free processes for accounts and loans, communication from the bank on stage wise progress of a loan sanction, timely intimations on dues to be paid and deposit maturity, door delivery of cheque book, pass book, ATM card, simple forms, single window facility.

Product Convenience
This refers to the different products of the bank suiting the needs of the customers as deposit and loan products, automatic multi option deposit allowing interchangeability between Savings Bank account and fixed deposit account catering to both liquidity and interest benefit, automatic renewal facility of fixed deposit, low minimum balance of deposit account, multiple financial products as mutual funds, insurance and so on.

Self-service Technology Convenience
This refers to the technologically updated products of the bank which enable customers better help themselves with banking from anywhere and anytime and without staff intervention even in the bank’s premises like card swipe machine in the branch for transfer of funds, cash Deposit machine in the branch, Wide network of ATMs for the Bank at all places, user friendly electronic banking facilities, updated electronic banking products, reliable
website for the Bank, Mobile apps of the Bank for easy access /transactions, Mobile alerts for transactions and so on.

**Reliability**
This refers to the trust factor the bank has created in the customers as regards safety and security of their documents, maintenance of secrecy and confidentiality of accounts, good market reputation of the bank, good market share nationally, pan India presence of the bank and the dependable quality exhibited by the bank over the years facilitating continuous relationships.

**Promotional excellence**
This refers to the bank projecting itself among the public as print media advertisements of the bank are content rich and attractive, being very aggressive in digital media marketing, The brand ambassador of the bank as a popular person and all types of updated, relevant advertising by the bank.

**Tangibility**
Factors such as design of the branch air conditioned and soothing atmosphere with better customer seating arrangements

**Service Excellence**
Service excellence is a multi-dimensional construct. It is a super set of many variables. It covers all facets of banking business, ranging from location to products, process to policy, reliability to tangibility, technology to customization, promotion to recovery, personnel and so on. Service excellence is the independent variable on which Continuance intention depends on. Selection of a bank is owing to some or many factors, but continued relationships look forward to service quality or excellence. Customer satisfaction is both an emotional and cognitive response. In every context of service there is some expectation. When the customer gets what he wants he seems to be satisfied. But for continuing interest the customer would expect a bit more than what he otherwise expects. In today’s competition driven banking business, Customer satisfaction is giving way to customer
delight and even ecstasy. Likewise professional banking is metamorphosing into passionate banking from the bank's end.

Apart from apt and appropriate timings and business customers expect pleasant communication with the staff, personal attention, instant Complaints redressal, priority for groups as senior citizens, flexibility in procedures to meet customers’ genuine needs and casualties, minimum waiting time for transaction at the branch, quick decision making, good treatment of customers representatives as third parties, bearers and customers employees. Staff represent the bank to the public. Friendly and enthusiastic staff, always willing to serve as well as educate the customer to better avail of the bank’s facilities, well versed with bank’s products, policies, Government/RBI policies and guidelines, adhering to professional and official decorum is a major constituent of service excellence.

**Price Sensitivity**
This variable is concerned with the pricing of products and services of a bank. The interest rates of different loan products, service charges for non-maintenance of balances, availing of different services like withdrawal of money through ATM, transactions through internet banking etc

**Continuance Intentions**
This variable verifies the intention of a customer to stay with his banker and what are the variables affecting his such decision. This is an end variable, which is decided by the other variables, rather the dependent variable in the study. This is the culmination of all businesses and expectations. A satisfied customer, whose expectations are fulfilled a bit more, who regards service as excellent could probably have continuous intentions.

The variables as PHC, PRC, PDC, SSTC, REL, TAN and PROM are unidimensional with about 5 to 7 reflective items. The variable Service Excellence is a result of multi-dimensional construct. It is led by various variables such a process, policy, reliability, tangibility technology, recovery of charges, promotion, advertisements, customization and so on.
The reflective items of service excellence are stratified into 5 factors. They are

- Staff Quality
- Customization
- Clarity in Policy
- Service Recovery
- Technological Quality

Each factor includes four reflective items, the dimensional structure is analysed and confirmed in the process of the research through Exploratory Factor Analysis and Confirmatory Factor Analysis, as a pre requisite for validation of Service Excellence construct.

The customers expect appropriate and apt timing for banking transactions. They expect the staff to be friendly. Have pleasant communication and skills, immediate complaint redressal mechanism, priority banking for senior citizens, mothers with small children and window to meet customers genuine demands not defined by the usual banking terms. They also expect good treatment to their representatives. The employees represent the bank and are the face of the bank among the public and customers. They are expected to be enthusiastic, friendly, well educated, well versed with banks products and services, government and RBI policies. They are also expected to adhere to official and professional decency and decorum which is a vital constituent of excellence in service delivery.
3.5 SCALE DEVELOPMENT PROCESS

The term ‘scale’ refers to an instrument for measurement developed for the purpose of measuring a theoretical phenomenon that cannot be readily observed or assessed directly (De Vellis 2003). The process of scale development is of critical importance in any study. A scale should be a reliable and valid measure, capable of drawing conclusions about the constructs measured. Specific steps are carried out in this process of scale development. As the target groups, namely the industry, individual, culture, geographical areas differ widely, developing a scale of universal application is near to impossible. So an attempt is made to design a service excellence scale along with related constructs, specifically suiting the requirements of the study.

Churchill’s guidelines include the main and traditional procedures for the development of scale, and is relevant especially in market research. The stages include

- The domain of the constructs should be specified
- Sample generation
- Purification of measures
- Data assessment
- Assessing construct validity
- Norm development

A uni-dimensional scale is one in which all the items of the scale measure one common variable. Confirmatory factor analysis is a very accurate measure of uni-dimensionality, according to Gerbing and Anderson, who advocated CFA than alpha or correlations. Exploratory factor analysis was preferred in the preliminary stages of analysis as a technique to reduce items of less or no relevance. A pilot study, according to Spector, on a small sample of respondents would guide the researcher in the actual research. The findings and feedback from the pilot project could be revised prior to testing
the universe of the study. The specific domains of interest in the study is aptly captured and developed to ensure content validity. As there is specific acceptable index to quantify content validity of the measures, theory could be and should be depended upon for the establishment of content validity.

Scale development procedures are never perfect. Proper specifications of the domain of the constructs alone guarantee proper measurements. A rational and content validity based procedure namely C-OAR-SE, introduced by Rossiter for scale development include the following steps:

- Construct definition
- Object classification and identification of components
- Attribute classification
- Rater entity classification
- Scale selection
- Enumeration
3.6 MEASUREMENT STRATEGY OF CONSTRUCTS

A variable is an attribute that expresses a construct, with different or variable values according to its use in specific study. The analysis of the relationships among the variables is what such a study focuses on. These variables are abstract and are not directly measured. Thus came the concept of latent variables into the study with the objective of explaining the variables in the study. Latent variable (LV) are defined by Bentler as ‘hypothetical constructs invented by the researcher for the purpose of understanding a research area.’ The disadvantage that LVs cannot be observed and directly measured led researchers use Manifest variables (MV) to estimate LV in the model. Thus the relationship between the different variables like staff quality, clarity in policy, technology, service recovery and customization can be studied. The connection between variables and constructs are called ‘epistemic relationships’ or ‘rules of correspondence’ by Bagozzi.

The two types of constructs are

- Formative
- Reflective

Constructs are considered causative of indicators and a variance in construct reflects in the indicators. These are reflective constructs as they are representative of the reflections of a construct. On the contrary formative constructs are those constructs in which the indicators cause or form constructs, or a construct is induced by its indicators.
### Table 8: Comparison of Constructs

<table>
<thead>
<tr>
<th>FORMATIVE</th>
<th>REFLECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators are seen to define the construct</td>
<td>Constructs define the characteristics of indicators</td>
</tr>
<tr>
<td>Alteration in indicators alter the construct</td>
<td>Alteration in indicators does not show in the construct</td>
</tr>
<tr>
<td>Change in the construct does not change the indicator</td>
<td>Change in the construct changes the indicator</td>
</tr>
<tr>
<td>Elimination of an indicator can affect content validity</td>
<td>Elimination of an indicator need not alter concept of the construct</td>
</tr>
<tr>
<td>Change of value of an indicator not necessary to change other indicators</td>
<td>Change of value of an indicator necessarily changes other indicators</td>
</tr>
<tr>
<td>Indicators need not have same antecedents and consequences</td>
<td>Indicators expected to have same antecedents and consequences</td>
</tr>
<tr>
<td>Uncorrelated multidimensional indicators</td>
<td>Correlated multidimensional and uni-dimensional indicators</td>
</tr>
<tr>
<td>Errors are at construct level</td>
<td>Errors are at indicator level</td>
</tr>
</tbody>
</table>

In this study there are both reflective as well as formative constructs. Service excellence is considered a second order formative construct and multidimensional with 5 dimensions, namely: staff quality, clarity in policy, service recovery, customization and technology quality. These dimensions are measured in reflective way and second order in formative way. Chin (1998) suggests that the decision of measuring the latent constructs with formative or reflective indicators should be according to the research objectives.
Table 9: Constructs and Indicators

<table>
<thead>
<tr>
<th>CONSTRUCT</th>
<th>NATURE</th>
<th>INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Convenience</td>
<td>Reflective</td>
<td>Access, visibility, vehicle parking, networking, ambience of the branch</td>
</tr>
<tr>
<td>Process Convenience</td>
<td>Reflective</td>
<td>Applications and documentations taken at the convenience of the customer with door delivery, hassle free and easy process, timely intimations, loan insurance by the bank</td>
</tr>
<tr>
<td>Product Convenience</td>
<td>Reflective</td>
<td>Liquidity cum term multi option deposit, auto renewal, Overdraft facility on loans, Concessions on some accounts, multiple financial products like, mutual funds and insurance, deposit and loan products suit to the customer’s need</td>
</tr>
<tr>
<td>Reliability factors</td>
<td>Reflective</td>
<td>Documents are handled safe and secure by the bank, The bank keeps secrecy of accounts, The bank’s good reputation in the market, pan India presence of the bank</td>
</tr>
<tr>
<td>Tangibility factors</td>
<td>Reflective</td>
<td>Branch design, air conditioning, decent customer lounge, motivating atmosphere</td>
</tr>
<tr>
<td>Self-support technology</td>
<td>Reflective</td>
<td>ATM, CDM, Electronic banking, Mobile apps and wallets, reliable website, swipe machine</td>
</tr>
<tr>
<td>Promotional excellence</td>
<td>Reflective</td>
<td>Advertisements, marketing through print and visual media, brand ambassador</td>
</tr>
<tr>
<td>Continuance intentions</td>
<td>Reflective</td>
<td>Choosing a bank, deciding to continue business</td>
</tr>
<tr>
<td>Service Excellence</td>
<td>Reflective</td>
<td>Quality staff, Customized service, Clarity in Bank’s Policies, Service recovery and Technology quality,</td>
</tr>
<tr>
<td>Service Excellence</td>
<td>Formative</td>
<td>Retention of customers by continuance intentions</td>
</tr>
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</table>
Service excellence is both a reflective as well as formative construct. Its indicators and factors, namely staff quality, customization, clarity in policy, service recovery and technological quality reflect in it. Likewise service excellence induces customer satisfaction and retention inducing continuous intentions.

**Construct validity**

Construct validity refers to the extent to which any measuring instrument measures what it is intended to measure in the context in which it is to be applied (Netemeyer et al 2003, Nunnally and Bernstein 1994). Construct validity seems the most important one and for some scholars construct validity subsumes all categories of validity (Haynes et al and Netemeyer et al 2003).
3.7. HYPOTHESES DEVELOPMENT

A hypothesis is a tentative statement which proposes a relationship between concepts in a research problem. It is the intellectual progeny of the researcher and the research problem boiled down to specific terms to be tested as part of the study. The research methodology—the sample, the tools of data collection, is designed according to the hypothesis. The review of relevant literature facilitates the formulation of the hypothesis. In the course of the research the hypothesis gets proved or rejected through analysis of data using statistical tools of analysis. It is this findings leading from the hypothesis which are interpreted, fill the research gap observed in the review of literature and added to the body of knowledge. The hypothesis should have relation with the body of knowledge at a broader level. It should also be able to be streamlined in order to facilitate measurement for processing and analysis.

Sarantakose has defined Hypothesis as “A hypothesis can be defined as a tentative explanation of the research problem, a possible outcome of the research or an educated guess about the research outcome”

Requirements of a Hypothesis are:

- There should be two concepts
- There should be a relationship between them

This study is conducted in the context of banking business relationships—from a customer’s perspective. A customer’s selection of a bank can be two fold—first the initial selection of a bank for some or many reasons like, easy access, simple procedures, flexibility, costs, and a combination of one or more of these. There could be many reasons for a customer, or specifically niche retail customers, the target group in the study to choose a bank. This could be facilitated by word of mouth, proximity, compelling situations as salary accounts and so on. The second criterion of selection is that of continuing relationship or continuance intentions. This could be a more complex
selection, especially at a time when customers have many choices. Opening
of an account need not ensure continuing business relationship. The study
explores into the factors which ensure continuance intentions on the part of
the customer. Determining factors for continuance intentions could be
different for different targeted customers, it could range from proximity to
pricing, singly or in combinations or two or more variables.

Service excellence is hypothesized as a variable influencing continuance from
the part of the customer. The other variables: physical convenience, process
convenience, product convenience, self-service technology convenience,
reliability factors, tangibility and promotional excellence, each uni-dimensional
with a few reflective items. Price sensitivity is yet another variable. Service
excellence is a multidimensional construct with five dimensions: staff quality,
customization, clarity in policy, service recovery and technology quality.

The target groups are again sub-grouped for comparative study, based on
age, education, bank business balances and length of association with the
bank, which too could influence or even be determinants of bank selection.
The researcher, in the light of such assumptions and considerations have
framed a set of hypotheses to study, test, confirm and generalize.
3.8. EXPECTED OUTCOME OF THE STUDY

This stage of framing theoretical model of study and the hypotheses is expected to connect the different variables under study. The analysis could help in unmasking what the determinants of niche retail customers were in selection of a bank with continuance intentions. This would help the body of knowledge in related field, to formulate future strategies and courses of action by considering the preferences among variables and combinations of them. The study factorizes in detail the multidimensional service excellence construct, on its position as a determinant. The factors of service excellence are explored and confirmed using Factor Structure Analysis and Confirmation Model for Multi-dimensional variables. Also structural model was used to study the effect of Price Sensitivity and for hypothesis test. The study expects the hypothesis to establish the relationship among variables.

The study would help to identify the variables which are the real or more important determinants of bank selection. This would identify methods and come with innovative plans for the benefit of business. The study would throw light on banks on the determinants and they could strategize accordingly to improve productivity, profitability and thus sustainability. This could be of high relevance in present day customer driven banking business. In changing times, banking has walked many miles from its traditional function, and need to customize according to the changing clientele. The customer has multiple choices and the relevance of electronic banking is gaining greater momentum. Etiquette is yet another factor, which modern man is obsessed with, in line with westernization and globalization, and is part of good service and fosters relationship. The variables and the target group would be studied using multiple parameters, the relevance and relative importance of which would unfold through the analysis. The scholar intends to connect with previous research in related field and through survey, analysis and interpretation fill the research gap.