

**A STUDY ON
RETAIL BANKING OF COMMERCIAL BANKS IN NEPAL**

(With special reference to NABIL & NIBL Bank Ltd)

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RECOMMENDATION

This is to certify that the Thesis

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Entitled:

A STUDY ON RETAIL BANKING OF COMMERCIAL BANKS IN NEPAL

(With reference to NABIL and NIBL Banks)

Has been prepared and approved by this department in the prescribed format of faculty of management. This thesis is forward for examination.

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(With reference to NABIL and NIBL Banks)

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Viva – voce committee

Head, research department.....

Member (Thesis Supervisor).....

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DECLARATION

I hereby declare the entitled; **A STUDY ON RETAIL BANKING OF COMMERCIAL BANKS IN NEPAL (With reference to NABIL and NIBL Banks)** submitted to office of dean faculty of management, T.U. is my original work completed for the partial fulfillment of the requirement of the degree of master of business studies under the supervision of **Asso. Prof. Prakash Singh Pradhan** of Shankar Dev Campus.

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ABBREVIATIONS

A.D	Anno Domini
ABBS	Any Branch Banking Services
ATM	Automatic Tailor Machine
B. S.	Bikram Sambat
CD	Credit Deposit Ratio
CIS	Customer Information System
Co.	Company
CRM	Customer Relationship Management
CRR	Cash Reserve Ratio
EMI	Equal Monthly Installments
F/Y	Fiscal Year
GDP	Gross Domestic Product
JVB	Joint Venture Banks
KYC	Know Your Customer
LA	Loan & Advance
LTD	Limited
MBA	Masters' of Business Administration
MBS	Masters' of Business Studies
NABIL	Nepal Arab Bank
NIBL	Nepal Investment Bank
NPA	Non Performing Assets
NRB	Nepal Rastra Bank
Rs.	Rupees
SMS	Short Message System
T. U.	Tribhuvan University

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Banking is a vital part of the national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprise. Commercial banks are the heart of the financial system. They hold the deposit of the individual, government establishment and business units. They make funds available through their lending and investing activities to borrower, individual, business firms and government establishment. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of the nation is very important to the functioning of its economy.

Retail banking implies executing banking transactions with a large number of customers with relatively low business volume. Today, retail banking is not confined offering standardized product and services. It extends to designing, development and marketing of customized products. In fact, retail banking has today become the jewel of the banking industry. It is undergoing continuous evaluation. The objective of the retail banking is to provide its target market customers a full range of financial products and banking services, giving the customer to one stop window for all his/her banking requirements. The products are backed by world class services and delivered to the customers through the growing branch network as well through alternatively delivery channels likes ATMS, e-banking , ABBS Services and SMS banking.

Retail banking changes the relationship between banks and customers, changing business models, cost relations, customers relations, integration of global financial markets, technology convergence and incessant introduction of new products and services more discerning, demanding and less loyal customers have become the important changed diverse across the globe. The focus of retail banking has thus been constantly evolving. In the early

90s, it was “product focus”, in the late 90s it was “sales focus”, by 2000s, it become “price focus”, and today, it is relationship driven.

In the field of retail banking, the players of the world produce new, innovative and vast products to grab the customer day to day. There are a lot of products which beyond of the study. So researcher has described the mostly used products in Nepal. A host of factors, such as number of dual income families, high salaried employees with high purchasing and borrowing powers, phenomenal growth of the information technology sector, attractive tax sops for housing loans, desire to buy new house etc, have contributed to the optimism in the housing sector. Investing in housing has always on top priority for most of the developing nations’ families. Thus, the banks are going in for housing finance with more vigor. Since these loans are very secure, with low incidence of default, demand for housing loans has been growing rapidly and they form a growing avenue for development of funds by banks. Home loans of course, have been the fastest growing loans segment of banks in Nepal in the past few years. It is estimated to be growing at around 50% per annum. The housing finance players are dropping interest rate/fees and undercutting each other, due to the reason that they find ways to deploy the low cost fund mobilized, in their purist of aggressive growth.

Automobiles are the key factors of any nation’s development. After most of the nation adopted liberalized and open economy policy, it has seen that the significance development in the automobile sectors. Due to media and advertisement campaign of automobile sector, middle class people begun to dream to ride car and two-wheeler. Because of low-level income, their dream has not come to reality. After resurgence of retail banking, it is mostly preferable segment in the retail bankers. It is less risky and most preferable segment in the customer too. Nepalese banking industry is witnessed in the boost in vehicle loan segment. In vehicle loan, they are providing loan to consumers at lower interest and less hurdle as well as low service charge.

Nepal is the smallest consumer market in the world but consumers in this country are dreaming of buying opportunities. The aspirations of these consumers can be fulfilled only when the consumer lending gathers momentum and grows at a much faster pace, which can be made possible by the lending institutions at an affordable rate. With significant spurt in income levels especially in middle-income segment and consumerism, consumer loans also called personal loans. Now a day’s personal loan is very popular in Nepal. People find personal loans are easy to arrange, made at fixed interest rate, and based on fixed monthly

repayment program. Interest rate is on form of the time the loan is availed. The amount of interest due is added to the amount borrowed, the total sum is repaid monthly installments over the repayment period, and the same is commonly known as Equal Monthly Installments (EMI).

Education plays the vital role to build the nation. Education is an essential and integral part for the Human Resource Development. Accordingly, National/State policies are framed to ensure that this basic need is met through proper initiatives. With gradual reduction in the government subsidies, education is getting more and more costly and hence the needs for the institutional funding, especially to pursuer higher/technical/professional education. There are many meritorious and deserving students aspiring to reach the sky but may not have the means of achieve. To ensure that dreams do not remain unfulfilled due to lack of funds, most of the retail banking player in the world providing educational/professional loans. This scheme provides the right answer for students who wish to pursue higher studies in Nation or abroad, but do not have the means to do so. The main emphasis is that every meritorious student is providing opportunity to pursue education with the financial support on affordable terms and conditions.

Credit card identifies its owner as one who is entitled to credit when purchasing goods or services from certain establishment. Credit cards originated in the United States in the 1930s, their use was wide spread by the 1950s. Consumer behavior has been radically altered by the power of plastic money. A credit card has endowed the middle class with the power to acquire their dream objectives, which are beyond their normal means. The emergence of plastic money or credit cards in Nepal has ushered in the era of convenience and security, apart from opening up new vistas of effective demand. A credit cardholder gets many benefits like free credit period, discount in travel expenses, quick loan processing and free gift. Besides members can get free health insurance and checkups. The comfort that these credit cards provide in terms of payment for shopping bills, electricity bills, phone bills, travel tickets and even petrol bills is enormous. It offers the convenience of immediate payment even with no cash in hands, future growth in transaction depends on the creation of more transactions at the point of sale centers.

A debit card is a better way of carrying cash or a checkbook. One can use an electronic card as a convenient payment mechanism. The card is generally issued by consumers' bank and is

connected through the ATM. Debit card allow consumer to spend only what's the consumers' account and purchase should be kept in track of just as if consumer are writing a cheque.

In retail banking, there is an existence of the vast consumer and stiff competition. Rising disposable income and changing life style and aspiration of a sizeable section of the population, they always demand and prefer innovative and new product to suitable for their requirement. To grab the new consumer and retain the banks as a consumer friendly bank, banks should offer new and innovative product. It can be proved by the innovative product offer by Nepalese banks like internet banking, mobile banking, ABBS banking, ATM, Bill payment, Remittance service, financial service and different loan services. Technology has emerged as a key driver of growth for an innovative banking sector in Nepal.

History of Banking in Nepal

In general bank is an institution, which deals in money, receiving it on deposit from customers, honoring customer's drawings the deposit against such deposit on demand, collecting cheques for customers lending or investing surplus deposit until they are required for repayment. Bank plays the mediator role between the depositor and borrower. Development of the bank history in Nepal likes many other countries, goldsmith, merchants and money lender in the ancient time. TejrathAdda established in 1880 during the tenure of the then Prime Minister Ranoddip Singh was the first step toward the institutional development of banking in Nepal. TejrathAdda didn't collect the deposit from the public but gave loans to employees and public against the bullions.

The concept of Bank in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 BS as a semi government organization. In Baishakh 14, 2013 BS the first central bank named as Nepal RastraBank was established with the objectives of supervising, protecting, and directing the function of commercial banks and other financial institutions activities. With the growing activities of the country, the necessity of an addition commercial bank was realized in the country. Consequently another commercial bank fully owned by the government named as RastriyaBanijaya Bank was established in 2022 BS. Apart from this, NIDC was established in 2016 BS and Agriculture Development Bank established in 2024 BS and other development bank and financial institutions have been continuing to establish and contributing to the economy and banking tradition in Nepal.

As an open policy of Nepalese Government's to get permission to invest in banking sector from private and foreign investor under commercial bank act 2031 BS, different private banks are getting permission to establish with joint venture of other countries. Nowadays 30 commercial banks operating in Nepalese financial market.along with 4 joint venture with foreign banks.Today demand for credit has almost reached a plate from the traditional sectors. Consequently, the banking system is over huge with liquidity. This has compelled banks to scrutinize of alternative avenues to display their funds and thus emerged the concept of retail banking.

Retail banking implies executing banking transactions with a large number of customers with relatively low business volume. Today, retail banking is not confined offering standardized product and services. It extends to designing, development and marketing of customized products. In fact retail banking has today become the jewel of the banking industry. It is undergoing continuous evaluation. The objective of the retail banking is to provide its target market customers a full range of financial products and banking services, giving the customer to one stop window for all his/her banking requirements. The products are backed by world class services and delivered to the customers through the growing branch network as well through alternatively delivery channels likes ATMS, e-banking , ABBS Services and SMS banking.

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1.2 Profile of Sample Companies

1.2.1 NABIL Bank Limited

NABIL Bank Limited, the first foreign joint venture bank of Nepal commenced operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society pursuing its objective, NABIL

provides a full range of commercial banking services through its 30 points of representation across the kingdom in and over 170 reputed correspondent banks across the globe.

NABIL Bank, as a pioneer in introducing many innovative products and marketing concept in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, Credit cards, state-of-art, world-renowned software from Infosys Technologies system and banking system and Tele-banking system.

1.2.2 Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of the bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage
- The remaining 20% being held by the General Public

1.3 Statement of the Problem

After the introduction of the liberalization policy, many banks, financial institutions and other institutions are established rapidly. These days many commercial banks, development banks and financial institutions are operating their works to assist the process of economic development in the country. Due to the high competition among financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and

investment practice of collected funds. Therefore, it raised the problem of investment and proper mobilization activities play vital role in utilization of collected funds and overall development of economy of the nation.

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot be able to obtain its target. Fund mobilization policy may differ from one bank to another bank but there is no optimum utilization of shareholders fund to have greater return in any bank. NRB has also significant role to make commercial bank mobilize their fund in proper sector for this purpose. NRB imposed the rules and regulation so that commercial banks and financial institution can have sufficient liquidity and security. Though most of the commercial bank and other financial institution have been successful to earn the profit from fund mobilization, none of them seems to be capable to invest their entire fund in more profitable sector.

As the major motive of the bank and financial institution is to earn more profit, they want to distribute the deposit on loans and advance on different sectors. These days, most of the banks and financial institutions are moving towards the retail banking. The problems of the study are as follows.

- What is the future prospect of Retail Banking in Nepal?
- What are the problems that commercial banks to provide Retail Banking service are facing?
- Why the consumers are not getting benefit of the Retail Banking provided by banks.
- What types of Retail Banking products do the consumers prescribe?

1.4 Objectives of the Study

The key objective of this study is to examine the situation of the retail banking of the selected commercial banks. The study has the following objectives

- To explore the existing situation of retail banking in Nepal.
- To analyze the retail banking products using in Nepalese commercial banks.
- To identify and analyze the problems and prospects of retail banking in Nepal.
- To provide suggestion and recommendation based on findings of the study.

1.5 Significance of the Study

Today retail banking is one of the important means of funds utilization of banks and other financial institutions. For Nepal, it is extremely new and emerging concept. In the last five years some Nepalese bank adopting the retail-banking concept to grab the high and middle level consumer of urban areas and sustain the bank's profitability, are causes of slowdown of corporate lending. Therefore, an independent study in this sector will help people find their way to solution for their investment.

The significances of the study are.

- Public can know the retail banking activities of the Nepalese banks and financial institution.
- It is beneficial for the government while formulating policy and rules regarding the credit policy.
- The study of retail banking would provide information for the management of the concerned banks that would be helpful to take corrective actions in the banks activities.
- This study provides valuable information that is necessary for the management of the banks, shareholders, public and related parties.
- This study is useful for students and researchers.

1.6 Limitations of the Study

The limitations of the study are as follows.

- This study is based on secondary as well as primary data. Accuracy depends upon the data collection and provided by the banks.
- This study has been carried out for the partial fulfillment of the requirement of Master's degree, faculty of management of T.U. Therefore, time and resources are major limitation of the study.
- Only 2 commercial banks among 30 have been selected as sample for study.
- This study is focused on only three product of retail banking among the many product offered by the banks.

1.7 Organization of the Study

The study has been organized into five chapters each devoted to some aspects of the study of the retail banking in Nepal. The chapter one to five consists of introduction, review of literature, research methodology, presentation and analysis of the data and summary, conclusion and recommendations.

Chapter I: Introduction

It deals with the introduction of the main topic of the study like general background, statement of the problems, objective of the study and organization of the study and other introductory framework.

Chapter II: Review of Literature

It deals with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis.

Chapter III: Research Methodology

It describes research methodology employed in this study i.e. research carried out in this size and shape. For the purpose various financial and statistical tools and techniques are defined which is used for the analysis and presentation of data.

Chapter IV: Presentation and Analysis of Data

This chapter is the major part of the whole study in which all the collected relevant data are analyzed and interpreted by the help of the different financial and statistical tools. Major finding of the study are explained.

Chapter V: Summary, Conclusion and Recommendation

It contains the summary of the study, conclusion and recommendations on the basis of the finding of the study.

CHAPTER- II

REVIEW OF LITERATURE

Review of literature includes the concepts and ideas about the selected topics by reviewing all the relevant materials regarding the study. In fact, it begins with the search for suitable topics and continues throughout the duration of the research work. It deals with a literature survey of existing volume of similar related subjects. Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted. This chapter is divided into two parts.

- Conceptual / theoretical review
- Review of related studies

2.1 Conceptual Framework

This section is developed to discuss briefly about the theoretical framework. Which are closely related to the research work. Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. Services offered include: savings and checking accounts, mortgages, personal loans, debit cards, credit cards, and so” The Retail Banking environment today is changing fast. The changing customer demographics demands to create a differentiated application based on scalable technology, improved service and banking convenience. Higher penetration of technology and increase in global literacy levels has set up the expectations of the customer higher than never before. Increasing use of modern technology has further enhanced reach and accessibility.

The market today gives us a challenge to provide multiple and innovative contemporary services to the customer through a consolidated window as so to ensure that the bank’s customer gets “Uniformity and Consistency” of service delivery across time and at every touch point across all channels. The pace of innovation is accelerating and security threat has become prime of all electronic transactions. High cost structure rendering mass-market servicing is prohibitively expensive. Present day tech-savvy bankers are now more looking at reduction in their operating costs by adopting scalable and secure technology there by

reducing the response time to their customers so as to improve their client base and economies of scale.

Retail Banking

2.1.1 Introduction of retail banking

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Related ancillary services include credit cards, or depository services. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise, and the financial institution deal in small numbers of high value transactions.

The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the later is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well-integrated manner.

Today's retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments and securities)
- Multiple channels of distribution (call center, branch, and internet)
- Multiple customer groups (consumer, small business, and corporate).

2.1.2 Retail Banking Product

In the field of retail banking, the players of the world produce new, innovative and vast products to grab the customer day to day. There are a lot of products which are beyond the scope of the study. So, the mostly used products in the Nepal are categorized here.

A. Home Loans

A host of factors, such as number of dual income families, high salaried employees with high purchasing and borrowing powers, phenomenal growth of the information technology sector, attractive tax sops for housing loans, desire to say new house etc, have contributed to the optimism in the housing sector. Investing in housing has always on top priority for most of

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B. Auto Loan

Automobiles are the key factors of any nation's development. After most of the nation adopted liberalized and open economy policy, it has seen that the significance development in the automobile sectors. Due to media and advertisement campaign of automobile sector, middle class people begun to dream to ride car and two wheelers. Because of low level income, their dream has not come to reality. After resurgence of retail banking, it is mostly preferable segment in the retail bankers. It is less risky and most preferable segment in the customer too. Nepalese banking industry is witnessed in the boost in vehicle loan segment. In vehicle loan they are providing loan to consumers at lower interest and less hurdle as well as low service charge.

C. Personal Loans

Nepal is the smallest consumer market in the world but consumers in this country are dreaming of buying opportunities. The aspirations of these consumers can be fulfilled only when the consumer lending gathers momentum and grows at a much faster pace, which can be made possible by the lending institutions at an affordable rate. With significant spurt in income levels especially in middle income segment and consumerism, consumer loans also called personal loans. Now a day's personal loan is very popular in Nepal. People find personal loans are easy to arrange and made at fixed interest rate and on the basis of fixed monthly repayment program. Interest rate is on form of the time the loan is availed. The amount of interest due is added to the amount borrowed and the total sum is repaid monthly installments over the repayment period and the same is commonly known as Equal Monthly Installments (EMI).

D. Education Loans

Education plays the vital role to build the nation. Education is an essential and integral part for the Human Resource Development accordingly National/State policies are framed to ensure that this basic need is met through proper initiatives. With gradual reduction in the government subsidies, education is getting more and more costly and hence the needs for the institutional funding, especially to pursuer higher/technical/professional education. There are many meritorious and deserving students aspiring to reach the sky but may not have the means of achieve. To ensure that dreams do not remain unfulfilled due to lack of funds, most of the retail banking player in the world providing educational/professional loans. This scheme provides the right answer for students who wish to pursue higher studies in Nation or abroad, but do not have the means to do so. The main emphasis is that every meritorious student is providing opportunity to pursue education with the financial support on affordable terms and conditions.

E. Credit Card

Credit cards that identifies its owner as one who is entitled to credit when purchasing goods or services from certain establishment. Credit cards originated in the United States in the 1930s, their use was wide spread by the 1950s. Consumer behavior has been radically altered by the power of plastic money. A credit card has endowed the middle class with the power to acquire their dream objectives, which are beyond their normal means. The emergence of plastic money or credit cards in Nepal has ushered in the era of convenience and security, apart from opening up new vistas of effective demand. A credit cardholder gets many benefits like free credit period, discount in travel expenses, quick loan processing and free gift. Besides members can get free health insurance and checkups. The comfort that these credit cards provide in terms of payment for shopping bills, electricity bills, phone bills, travel tickets and even petrol bills is enormous. It offers the convenience of immediate payment even with no cash in hands, future growth in transaction depends on the creation of more transactions at the point of sale centers.

F. Debit Card

A debit card is basically a better way of carrying cash or a check book. It is an electronic card that one can use as a convenient payment mechanism. The card is generally issued by consumers' bank and is connected through the ATM. Debit card allow consumer to spend

only what's the consumers' account and purchase should be kept in track of just as if consumer are writing a cheque.

G. Innovative Banking

In retail banking, there is an existence of the vast consumer and stiff competition. Rising disposable income and changing life style and aspiration of a sizeable section of the population, they always demand and prefer innovative and new product to suitable for their requirement. To grab the new consumer and retain the banks as a consumer friendly bank, banks should offer new and innovative product. It can be proved by the innovative product offer by Nepalese banks like internet banking, mobile banking, ABBS banking, ATM, Bill payment, Remittance service, financial service and different loan services. Technology has emerged as a key driver of growth for an innovative banking sector in Nepal.

2.1.3 Benefits of Retail Banking

Traditional lending to the corporate are slow moving along with high NPA risk, treasure profits are now loosing importance hence Retail Banking is now an alternative available for the banks for increasing their earnings. Retail Banking is an attractive market segment having a large number of varied classes of customers. Retail Banking focuses on individual and small units. Customize and wide ranging products are available. The risk is spread and the recovery is good. Surplus deployable funds can be put into use by the banks. Products can be designed, developed and marketed as per individual needs.

2.1.4 Scope for Retail Banking in Nepal

- It helps to increase in economic activity on the nation.
- Retail Banking give opportunity to the rural areas people to make their purchasing power.
- Nuclear family concept is gaining much importance which may lead to large savings, large number of banking services to be provided are day- by-day increasing.
- Tax benefits are available for example in case of housing loans the borrower can avail tax benefits for the loan repayment and the interest charged for the loan.

2.1.5 Advantages and Disadvantages of Retail Banking

Advantages

Retail banking has inherent advantages and disadvantages. They are as follows.

- Retail banking involves minimum marketing efforts in a demand – driven economy.
- Retail banking results in better yield and improved bottom line for a bank.
- Retail segment is a good avenue for funds deployment.
- Consumer loans are presumed to be of lower risk and NPA perception.
- It helps economic revival of the nation through increased production activity.
- Improves lifestyle and fulfils aspirations of the people through affordable credit.
- Innovative product development credit.
- Diversified portfolio due to huge customer base enables bank to reduce their dependence on few or single borrower
- Banks can earn good profits by providing non fund based or fee based services without deploying their funds.

Disadvantages

- Designing own and new financial products is very costly and time consuming for the bank.
- Customers now-a-days prefer net banking to branch banking. The banks that are slow in introducing technology-based products, are finding it difficult to retain the customers who wish to opt for net banking.
- Customers are attracted towards other financial products like mutual funds etc.
- Though banks are investing heavily in technology, they are not able to exploit the same to the full extent.
- A major disadvantage is monitoring and follows up of huge volume of loan accounts inducing banks to spend heavily in human resource department.
- Long term loans like housing loan due to its long repayment term in the absence of proper follow-up can become NPAs.
- The volume of amount borrowed by a single customer is very low as compared to wholesale banking. This does not allow banks to exploit the advantage of earning huge profits from single customer as in case of wholesale banking.

2.1.6 Opportunities

Retail banking has immense opportunities in a growing economy like Nepal. The rise of Nepalese middle class is an important contributory factor in this regard. The percentage of middle to high-income Nepalese households is expected to continue rising. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to retail banking segment.

The combination of above factors promises substantial growth in retail sector, which at present is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

2.1.7 Challenges to Retail Banking

The main challenge of retail banking are as follows:

- The issue of money laundering is very important in retail banking.
- This compels all the banks to consider seriously all the documents which they accept while approving the loans.
- The issue of outsourcing has become very important in recent past because various core activities such as hardware and software maintenance, entire ATM set up and operation (including cash, refilling) etc., are being outsourced by Indian banks.
- Banks are expected to take utmost care to retain the ongoing trust of the public.
- Customer service should be at the end all in retail banking. Someone has rightly said, “It takes months to find a good customer but only seconds to lose one.” Thus, strategy of Knowing Your Customer (KYC) is important. So the banks are required to adopt innovative strategies to meet customer’s needs and requirements in terms of services/products etc.
- The dependency on technology has brought IT departments’ additional responsibilities and challenges in managing, maintaining and optimizing the

performance of retail banking networks. It is equally important that banks should maintain security to the advance level to keep the faith of the customer.

- The efficiency of operations would provide the competitive edge for the success in retail banking in coming years.
- The customer retention is of paramount important for the profitability if retail banking business, so banks need to retain their customer in order to increase the market share one of the crucial impediments for the growth of this sector is the acute shortage of manpower talent of this specific nature, a modern banking professional, for a modern banking sector.

If all these challenges are faced by the banks with utmost care and deliberation, the retail banking is expected to play a very important role in coming years, as in case of other nations.

2.1.8 Strategies for Improving Retail Banking

Constant product innovation and Customer Satisfaction

The customer database available with the banks is the best source of their demographic and financial information and can be used by the banks for targeting certain customer segments for new or modified product. The banks should come out with new products in the area of securities, mutual funds and insurance.

Service Side

As most of the banks are offering retail products of similar nature, the customers can easily switchover to the one, which offers better service at comparatively lower costs. The quality of service that banks offer and the experience that clients have, matter the most. Hence, to retain the customers, banks have to come out with competitive products satisfying the desires of the customers at the click of a button

Introduction of New Delivery Channels

Retail customers like to interface with their bank through multiple channels. Therefore, banks should try to give high quality service across all service channels like branches, Internet, ATMs, etc.

Tapping of Unexploited Potential and Increasing the Volume of Business

This will compensate for the thin margins. The Nepalese retail banking market still remains largely untapped giving a scope for growth to the banks and financial institutions. With changing awareness of consumers, who are now comfortable with the idea of availing loans for their personal needs, banks have tremendous potential lying in this segment. Marketing departments of the banks be geared up and special training be imparted to them so that banks are successful in grabbing more and more of retail business in the market.

Infrastructure Outsourcing

This will help in lowering the cost of service channels combined with quality and quickness.

Detail Market Research

Banks may go for detail market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their share in retail banking pie by offering better products and services.

Cross-selling of Products

Banks have an added advantage of having a wide network of branches, which gives them an opportunity to sell third-party products through these branches.

Business Process Outsourcing

Outsourcing of requirements would not only save cost and time but would help the banks in concentrating on the core business area. Bank can devote more time for marketing, customer service and brand building. For example, Management of ATMs can be outsourced. This will save the banks from dealing with the intricacies of technology.

Tie-up Arrangements

Bank concentration can reap the benefit of reaching customers across the country by entering into strategic alliance with other such banks with intensive presence in other regions. In the present regime of falling interest and stiff competition, banks are aware that it is finally the retail banking which will enable them to hold the head above water. Hence, banks should make all out efforts to boost the retail banking by recognizing the needs of the customers. It is

essential that banks would be imaginative in predicting the customers' expectations in the ever-changing tastes and environments. It is the innovative and competitive products coupled with high quality care for clients will only hold the key to success in this area. In short, bankers have to run very fast even to stay where they are now. It is the survival of the fastest now and not only survival of the fittest.

2.1.9 Special Features of Retail Credit

One of the prominent features of Retail Banking products is that it is a volume driven business. Further, Retail Credit ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few plans. Ability of a bank to administer a large portfolio of retail credit products depends upon such factors.

Strong Credit Assessment Capability

Because of large volume good infrastructure is required .If the credit assessment itself is qualitative, than the need for follow up in the future educes considerably.

Sound Documentation

A latest system for credit documentation is necessary pre-requisite for healthy growth of credit portfolio, as in the case of credit assessment, this will also minimize the need to follow up at future point of time.

Strong Possessing Capability

Since large volumes of transactions are involved, today transactions, maintenance of backups is required.

Regular Constant Follow- up

Ideally, follow up for loan repayments should be an ongoing process. It should start from customer enquiry and last till the loan is repaid fully.

Skilled Human Resource

This is one of the most important pre-requisite for the efficient management of large and diverse retail credit portfolio .Only highly skilled and experienced man power can withstand the river of administrating a diverse and complex retail credit portfolio.

Technological Support

This is yet another vital requirement. Retail credit is highly technological intensive in nature, because of large volumes of business, the need to provide instantaneous service to the customer large, faster processing, maintaining database, etc.

2.1.10 Emerging Issues in Handling Retail Banking

Knowing Customer

‘Know your Customer’ is a concept which is easier said than practiced. Banks face several hurdles in achieving this. In order to that the product lines are targeted at the right customers-present and prospective-it is imperative that an integrated view of customers is available to the banks. The benefits flowing out of cross-selling and up-selling will remain a far cry in the absence of this vital input. In this regard the customer databases available with most of the public sector banks, if not all, remain far from being enviable.

What needs to be done is setting up of a robust data warehouse where from meaningful data on customers, their preferences, their spending patterns, etc. can be mined. Cleansing of existing data is the first step in this direction. Banks have a long way to go in this regard.

Technology Issues

Retail banking calls for huge investments in technology. Whether it is setting up of a Customer Relationship Management System or Establishing Loan Process Automation or providing anytime, anywhere convenience to the vast number of customers or establishing channel/product/customer profitability, technology plays a pivotal role. And it is a long haul. The Issues involved include adoption of the right technology at the right time and at the same time ensuring volumes and margins to sustain the investments. It is pertinent to remember that Citibank, known for its deployment of technology, took nearly a decade to make profits in credit cards. It has also to be added in the same breath that without adequate technology support, it would be well nigh possible to administer the growing retail portfolio without allowing its health to deteriorate. Further, the key to reduction in transaction costs simultaneously with increase in ability to handle huge volumes of business lies only in technology adoption.

Banks are on their way to catch up with the technology much required for the success of retail banking efforts. Lack of connectivity, stand alone models, concept of branch customer as against bank customer, lack of convergence amongst available channels, absence of customer profiling, lack of proper decision support systems, etc., are a few deficiencies that are being overcome in a great way. However, the initiatives in this regard should include creating flexible computing architecture amenable to changes and having scalability, a futuristic approach, networking across channels, development of a strong Customer Information Systems (CIS) and adopting Customer Relationship Management (CRM) models for getting a 360 degree view of the customer.

Organizational Alignment

It is of utmost importance that the culture and practices of an institution support its stated goals. Having decided to take a plunge into retail banking, banks need to have a well defined business strategy based on the competitive of the bank and its potential. Creation of a proper organization structure and business operating models which would facilitate easy work flow are the needs of the hour. The need for building the organizational capacity needed to achieve the desired results cannot be overstated. This would mean a strong commitment at all levels, intensive training of the rank and file, putting in place a proper incentive scheme, etc. As a part of organizational alignment, there is also the need for setting up of an effective Corporate Marketing Division. Most of the public sector banks have only publicity departments and not marketing setup. A fully fledged marketing department or division would help in evolving a brand strategy, address the issue of alienation from the upwardly mobile, high net worth customer group and improve the recall value of the institution and its products by arresting the trend of getting receded from public memory. The much needed tie-ups with manufacturers/distributors/builders will also be facilitated smoothly. It is time to break the myth banks are not customer friendly. The attention is to be diverted to vast databases of customers lying with the banks till unexploited for marketing.

Product Innovation

Product innovation continues to be yet another major challenge. Even though bank after bank is coming out with new products, not all are successful. What is of crucial importance is the need to understand the difference between novelty and innovation? Peter Drucker in his path breaking book: "Management Challenges for the 21st Century" has in fact sounded a word of

caution: “innovation that is not in tune with the strategic realities will not work; confusing novelty with innovation (should be avoided), test of innovation is that it creates value; novelty creates only amusement”. The days of selling the products available in the shelves are gone. Banks need to innovate products suiting the needs and requirements of different types of customers. Revisiting the features of the existing products to continue to keep them on demand should not also be lost sight of.

Pricing of Product

The next challenge is to have appropriate policies in place. The industry today is witnessing a price war, with each bank wanting to have a larger slice of the cake that is the market, without much of a scientific study into the cost of funds involved, margins, etc. The strategy of each player in the market seems to be: ‘under cutting others and wooing the clients of others’. Most of the banks that use rating models for determining the health of the retail portfolio do not use them for pricing the products. The much needed transparency in pricing is also missing, with many hidden charges. There is a tendency, at least on the part of few to camouflage the price. The situation cannot remain his way for long. This will be one issue that will be gaining importance in the near future.

Process Changes

Business Process Re-engineering is yet another key requirement for banks to handle the growing retail portfolio. Simplified processes and aligning them around delivery of customer service impinging on reducing customer touch-points are of essence. A realization has to drawn that automating the inefficiencies will not help anyone and continuing the old processes with new technology would only make the organization an old expensive one. Work flow and document management will be integral part of process changes. The documentation issues have to remain simple both in terms of documents to be submitted by the customer at the time of loan application and those to be executed upon sanction.

Issues Concerning Human Resources

While technology and product innovation are vital, the soft issues concerning the human capital of the banks are more vital. The corporate initiatives need to focus on bringing around a frontline revolution. Though the changes envisaged are seen at the frontline, the initiatives

have to really come from the 'back end'. The top management of banks must be seen as practicing what preaches. The initiatives should aim at improved delivery time and methods of approach. There is an imperative need to create a perception that the banks are market-oriented.

This would mean a lot of proactive steps on the part of bank management which would include empowering staff at various levels, devising appropriate tools for performance measurement bringing about a transformation – 'can't do 'to' can do' mind-set change from restrictive practices to total flexible work place, say. By having universal tellers, bringing in managerial controlling work place, provision of intensive training on products and processes, emphasizing, coaching etiquette, good manners and best behavioral models, formulating objective appraisals, bringing in transparency, putting in place good and acceptable reward and punishment system, facilitating the placement of young/youthful staff in front-line defining a new role for front-line staff by projecting them as sellers of products rather than clerks at work and changing the image of the banks from a transaction provider to a solution provider.

Rural Orientation

As of now, action that is taking place on the retail front is by and large confined two metros and cities. There is still a vast market available in rural India, which remains to be trapped. Multinational Corporations, as manufacturers and distributors, have already taken the lead in showing the way by coming out with exquisite products, packaging and promotions, keeping the rural customer in mind. Washing powders and shampoos in Rs.1 sachet made available through an efficient network and testimony to the determination of the Multi National Companies to penetrate the rural market. In this scenario, banks cannot lack behind.

2.1.11 Some Critical Issues

Customer Service

Customer service is perhaps the most important dimension of retail banking. While most public sector banks offer the same range of service with similar technology/expertise, the level of customer service matters the most in bringing in more business. Perhaps more than the efficiency of service, the approach and attitude towards customers will make the difference. Front line staffs have to be educated in this regard. A scheme of entrusting a

group of important customers to the care of each employee/officer with a person to person knowledge and intimacy can be implemented all sundry advices/notices such as Dr. /Cr. advices. TDR maturity advices, etc. whether signed by employees or officers should be identifiable by the name of those signing, and inviting customers to contact them for further assistance in the matter. A customer centered organization has to be built up, whose ultimate goal is to "own" a customer. Focused merchandizing through effective market segmentation is the need of the hour. A first step can be the organization of the various retail branches to enter for different market segments like up market individuals, traders, common customers, etc. For the Private Sector Banks, the focus should be on identifying efficient units and allocations of loans to these units. These banks should try Merchant Banking services a small scale. With agricultural output growing at a fast rate and mechanization setting in, banks should try to cater to the credit needs of the people involved in this profession. A wide network is absolutely imperative for this sector. Separate branches/divisions should be opened for traders and similar government businesses. Special facilities for cash tendered in bulk and immediate issue of drafts, by extending facilities like "guarantee bond" system, will go a long way in mitigating problems faced by traders who are the major customers for drafts issue. Provision for cash counting machines in these branches will reduce the monotony of cashiers and unnecessary delays, thus resulting in better productivity and ultimately in improved customer service. The personal segment is however the most important one. With the urban segment moving away because of disintermediation and competition from foreign banks, retail banks should focus on the rural/semi-urban areas that hold the maximum potential. Innovative schemes like "paper-gold" schemes can be introduced. In the urban areas, private banking to affluent customers can be introduced, through which advisory and execution services could be provided for a fee. Foreign currency denominated accounts can also be introduced for them. Nationalized banks compare very poorly with the foreign banks when it comes to the efficiency in services. In order to improve the speed of service the bank should.

- Improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast.
- Make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

Technology

In the current scenario, the importance of technology cannot be understated for retail banks which entail large volumes, large queues and paperwork. But most of the banks are burdened with a large staff strength which cannot be done away with. Besides, in the rural and semi-urban areas, customers will not be at home in an automated, impersonal environment. The objective would be to ensure faster and easier customer service and more usable information, instantly, economically and easily to all those who need it -customers as well as employees. Proper management information systems can also be implemented to aid in superior decision making. Communication technology is especially needed for money transfer between the same city and also between cities. There are inordinate delays in Nepal because of geographical and other factors. Modern technology can make it possible to clear any check anywhere within a day. Installation of software facilities at all the big branches will facilitate speedy transfer of payment advices. Computerization will be of great help in improving back-office operations. At present, all of the private sector banks of rural branches can have PCs. These can be used for quick retrieval and report generation. This will also drastically reduce the time bank staffs spend in filling and filing returns. Housekeeping operations can also be speeded up.

Price Building

Price bundling is a selling arrangement where several different products are explicitly marketed together to a price that is dependent on the offer. As banks are multi-product firms this strategy is more applicable to retail banking. Price bundling offers several economic and strategic benefits to a bank. It offers economies of, utilization of the existing capacities and reaching wider population of customers. Bank can get the benefits of information and transacting. In the process of extending variety of services, banks are acquiring enormous amount of customer information. If this information is systematically stored, banks can efficiently utilize this information in order to explore new segments and to cross-sell new services to these segments. Cross-selling opportunities and larger customer base can also be the motive for merger against usually stated advantage of cost savings. Price bundling can be used in order to lengthen the relationship with a customer. It will reduce the need of resources to be put on acquiring new customers and saves time of the bank. Among the strategic benefits, price bundling may cause less aggressive competition; it differentiates its products

compared to rivals in the same market where the products are sold individually or in other kinds of bundles.

2.1.12 Bank Lending Policy

Banks are expected to support their local communities with an adequate supply of credit for all the intimate business and consumers financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed making loans is the principal economic function of banks to find consumption and investment spending by businesses, individuals and units of government. How well a bank performs its lending function has a great deal to do with the economic health of the region, because loans “Support the growth of new businesses and jobs within the bank’s trade territory and promote economy vitality.” Moreover, banks loans often seems to convey positive information to the market place about a borrower credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources. (Kothari, 1995:152)

2.1.13 Types of Loans Made by Banks

Banks make a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles and buying new furniture, taking dream vacations, or pursuing college educations to constricting a home and office building.

- a. Real estate Loans, which are secured by real property land, building and other structures, which includes short term loans for construction and land development and long term loan to finance the purchase of farmland, homes payments, commercial structures, and foreign properties.
- b. Financial Institution Loan, include credit to banks, insurance companies, financial companies and other financial institutions.
- c. Agricultural Loans, extended to farm and ranch opportunities to assists in planting and harvesting crops and to supping the feeding and care of livestock.
- d. Commercial and Industrial Loan, granted to businesses to cover such expenses as purchasing inventories, paying taxes and meeting payrolls. (Rose, 2000:129)

2.1.14 Resurgence of Retail Banking

2.1.14.1 A Paradigm Shift from Corporate Banking

The economic slowdown and poor industrial growth have reduced demand for loans and their stiff competition in the corporate loans market due to continuous fall in interest rates. The corporate lending scene has also undergone radical change in the recent years. There are few opportunities in the wholesale segment, which is the corporate lending market. Competition has made it unviable to lend to above the yield on government securities. Volatility has been wide with corporate preferring to tap global markets for funds. This has left only second rung corporate available for lending by domestic banks. While it increases the threats of NPAs, the fact also remains that there are too many bank chasing too few corporation with good rating status. And retail finance market is more profitable than corporate banking business since, retail customers are less credit averse and more open to acquire assets through the credit route.

2.1.14.2 Differential Interest Rate

Price is an important aspect. As the market is getting commoditized interest rate differential assumes a greater significance. For example even the lowest interest bearing product say housing finance earn on interest of 10 to 12 percent for more than 5 years tenure, compared to corporate lending at 8 to 9 percent interest rate to meet more risky corporate loan demand. Every bank wants to choose that product, which is less risky and more profitable so the most of the bank invest in the retail finance. Corporate finance is a long term loan and interest rate is also low comparatively than retail banking.

2.1.14.3 Increase Middle Class Demand

Despite the slowdown in the economy, the purchasing power continued to be strong due to consumerism among the middle class in on the increase. As increasing number of products and service on credit, and the rapidly growing middle class with bias toward consumerism are the key drivers for the growth in the retail banking. Increase middle income segment opening up of the economy awareness and sophistication in urban and semi urban households for whom convenience, security and status are important, contributed to higher demand for retail banking (The Professional banker, June 2004:41). The consumer are sensitive to the

impact of any purchase on the household budget and will postpone till they have saved the actual money required. To counter this bank should shift their loan portfolio to grab these customers.

2.1.14.4 Liquidity Position of the Bank

Central bank is the regulator and administrator of the banking system. Recent trend shows that most of the central bank is in the favor of reduction of Cash Reserve Ratio. Due to the reduction of CRR, Banks have much liquidity position. But they were not able to lend this liquidity in profitable segment. For this sake, they found the retail banking system to convert this liquidity into profitability.

2.1.14.5 Availability of Better Spread to Banks

Due to the government and central banks' rules and regulation, bank must spread their presence in the semi urban and town also. There is not any credit off take in the corporate segment. For retain their presence in these area and gain profitability, Retail banking would be medication.

Risk Diversification

There is one proverb that 'Don't carry eggs in the same basket'. In corporate banking there are small numbers of customer but large loan portfolio. Due to this, bank should bear high risk. If one customer goes to bankruptcy or as a Non -performing Assets (NPA), bank bear 10bear 100 much risk and scarify profitability as well as turn into loss position. Banking world has seen these conditions vary often in the past. To prevent land minimize the above mentioned condition, banks turns in to the retail banking. Because of widespread risk among large number of borrowers, banks entertain low NPA and high profitability.

Technological Innovation

Today's world is technology driven. Most of the government offices, company, service organization and other profitable and non profitable organization are technology savvy. In this scenario, banks are not exception. Due to technological development, bank can spread not only in the national boundaries but also in international presence. They are able to reduce

their expenses and provide innovative product to the customers. So they must go to retail segment to grab the large customer beyond traditional banking system.

2.1.15 Present Status of Retail Banking in Nepal

Entry of more number of banks in the market has created intense competition in the banking industry. This has led the banks to operate under thin interest spreads, declining margins and rising costs this was not the case until two years ago. Consumer finance helps to reduce the risks of the banks by diversification of their portfolio and having a thrust on short term retail earnings rather than blocking funds in riskier medium and long term loans. Some banks developed consumer finance and housing finance product after the changing the concept of lending. They were keen to finance industrial and trading activities. However, with slowdown in the economy activities in the past, banks became selective in their lending operation as lending to industrial and trading activities as working capital and term loan requirements. Because of uncertainty in the economic environment, banks divert to invest in the retail banking. In the present competitive banking environment, differentiated products are effective method of gaining competitive advantage.

Customer service is one of the most important dimensions for retail banking. Public sector banks compare very poorly with the private sector banks when it comes to the efficiency in services. In order to improve the speed of service the banks should improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast so that processing is faster.

Retail banking was viewed primarily as a cost center and source of low cost deposit. But these days, retail banking represents a major source of competitive strength for the banking industry, as it is a point of direct customers contact. Retail services are uniquely positioned to help banks develop strong long term relationship with targeted customers and thus differentiate themselves from competitors. Banks look up a retail lending as a possible avenue to argument business in a current context. Consumer financing appears to be a viable alternative to cope with poor credit off takes.

Consumer financing encompasses extension of loans for consumer durable goods, education loans, housing loans, auto loan etc. Demand for loans for acquisition of TV, fridge, washing machine, air condition etc, is on the rise. Banks also offer loans through tie-ups with

manufacturer or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income levels of the people availability of finance for second hand cars. In fact on account of liberal financing by banks, import of passenger car, motorcycles and scooters, has registered good growth.

In retail banking, one of the major problems faced by the banks in the queue problem. The size of queuing will differ from hour to hour and day to day. To overcome this obstacle banks must ensure that adequate staff is available to man all the branches.

2.1.16 Features of Sound Lending and Investment Policy

Income and profit of the financial institutions like, commercial banks and finance companies depend upon its lending procedure, lending policy, investment policy of collected fund in different securities. The greater the credit by the banks higher will be the profitability. Some required features of sound lending policy and investment policies are explained as below.

Safety and Security

Financial institutions should invest their deposit in profitable and secured sectors. Banks should not invest their fund whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied which marketing investment on any sector.

Where,

M= Marketability

A = Ascertain ability

S = Stability

T = Transferability

Liquidity is the position of the firm to meet current or short-term obligations. General public or individual customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks wherever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

Profitability

To maximize the return on investment and lending position, financial institution must invest their collected fund in proper sectors. Finally they can maximize the volume of their wealth. Their return depends upon the interest rate, volume of loan, its time period and nature of investment on different securities and sectors.

Purpose of Loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have bad debts. So they should collected detailed information about the plan and scheme of the borrowing.

Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their funds. Illegal securities will bring out any problems to the investors. Lastly the reputation and goodwill of the banks and financial institutions is goes down in the market.

Tangibility

A commercial bank should prefer tangible security to the intangible one. Though it may be considered that tangible property does not yield on income apart from intangible securities, which have lost their value due to price level inflation.

Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, the entire firm must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.1.17 Consumer Lending and Borrowing

Among the most important of all financial markets are the markets providing saving instruments and credit to individuals and families. Many financial analyses have referred to the period since World War II as the age of consumer finance. Moreover, the market for consumer financial services in the one market that everyone, regardless of profession or social status, will enter at one time or another during his or her lifetime. (Shrestha 2001:78).

2.1.17.1 Consumers as Lenders of Funds

Each of us is a consumer of goods and services virtually in every day of our life. Scarcely a single day passes that we do not enter the marketplace to purchase the food, shelter, entertainment and other essentials of modern living. We are also well aware perhaps from personal experience; those customers often borrow heavily in the financial marketplace to achieve their desired standard of living. The groups of consumers supply loan able funds, when they purchase financial assets from the other units in the economy.

The most important household financial assets today is pension fund reserve, built up by individual workers to prepare for their retirement. An aging population has shown great concern in recent years that sufficient funds will be available when they retire to sustain their living standards. In second place are holding of corporate stock (equities) led by dramatic rise in holding of shares in mutual funds (investment companies). The recent growth in household's common stock investment appears to reflect continuing fears about inflation. Then, too many individuals are concern that, when they reach retirement, social security, and other government pension programs will be inadequate to cover spiraling medical expenses and other living cost in their latter years.

In third place among household holding of financial assets are deposits in banks, saving and loan associations, credit unions, and other third institutions. The importance of deposits in consumer financial investment is increasing these days. There has also been a significant rise in household investments in small businesses, which are often owned name operated by an individual or by a member of same family.

2.1.17.2 Categories of Consumer Borrowing

The range of consumer borrowing needs is enormous loan to the household sector support a more diverse group of purchase of goods and services than is true of any other of the economy. Consumer borrow long term loan to finance purchase of durable goods, such as single family homes, automobiles and home appliances. They usually borrow short term to cover purchases of non durable goods and services, such as medical care, vaccines, food and clothing. Financial analyst frequently divide the credit extend to consumer into three broad categories.

- a. Residential mortgage credit, used to support to purchase of new or existing homes.
- b. Installment credit, used primarily for long term non residential purpose, and
- c. Non installment credit used for shorter term cash needs.

For and away the dominant form of the consumer borrowing is aimed at providing shelter for individuals and families through mortgage loans. The volume of home mortgage credit flowing to households has grown rapidly in recent years with the attractiveness of home ownership as a tax shelter and with a recent tax reforms that favor loans secured by the borrower's home.

Installment credit is the second major component of consumer debt. Installment debt consists of all consumer liabilities other than home mortgages that are repaid in two or more consecutive payments usually monthly or quarterly. Lenders in this field extend four major types of installment credit: automobile credit, revolving credit, home loan and other consumer installment loans. This kind of credit, including the purchase of furniture and appliances, the payment of medical expenses, the purchase of automobile and the consolidation of outstanding debt, finances an incredibly wide variety of consumer goods and service.

The final category of consumer debt is non installment credit, which is normally paid off in a lump sum. This form of consumer credit includes single payment loans, charge accounts and credit services, such as medical care and utilities. The total amount of non installment loan outstanding is difficult to estimate because many such loans are made by individual purpose.

2.1.17.3 Home Equity Loans

One new form of consumer borrowing that is closely related to residential mortgage credit is home equity loan. Like traditional home mortgage, a home equity loan is secured by a borrower's home. However, unlike traditional home mortgage many home equity loans consists of a prearranged revolving credit line the borrower can draw on for purchases of any goods or services he or she wishes in varying amount, known as the borrowing base. The borrowing base usually equal the difference between the appraisal market value of the borrower's home and the unpaid amount of the mortgage against the home multiplied by a fraction.

Most home equity loan rates linked to the bank prime interest rate plus and extra margin of the risk (i.e. a flotation loan rate). The consumer protection act of 1998 prohibits a home equity lender from canceling a loan unless fraud, failure to pay, or other violations of the loan contract occur. Thus far, most home equity loans have been used to pay off other debts, make home improvements, buy automobiles, or finance an education.

Home equity credit is proved to be especially attractive to consumer lending institution for a variety of reason. These loans tend to have lower rate of default because borrowers tend to feel more responsible when their home is pledged as collateral and that collateral tends to have a more stable value. Moreover the cost of making home equity substantially lower than the cost of the series of short-term loans made to same customer. In addition, these loans usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build a working relationship with the customer better than most other types of consumer loans, creating more opportunities for the lender to sell that customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most home equity credit lines are revolving credits. However, if the borrower cannot make the loan payment his or her home may be repossessed and sold to pay back to the lender. Many financial experts recommended that consumer use home equity credit with caution, particularly when their future employment prospects are uncertain. (Kohn, Meir 2005:275)

2.1.17.4 Credit and Debit Cards

One of the most popular forms of installment credit available to consumers today comes through the credit card. Through this enclosed piece of plastic, the consumer has instant access to credit for any purchase up to a pre specified limit. In the language of finance, the credit cards has removed the “liquidity” constraint that restricted the spending power of millions of consumers, democratizing access to credit and spending power. More recently, another piece of plastic debit card has made instant cash available and checked cashing much easier. The growth of debit and credit cards has been truly phenomenal. Current estimates suggest that there are more than one trillion credit and debit cards in use worldwide and lending non financial companies have recently entered in large number as suppliers of credit card services.

A wide array of new consumer financial services is being offered today through plastic credit and debit card programs. Such services include consumer revolving credit line and pre authorized borrowing, the purchase of medical services and entertainment, and the payment of household bills using credit cards. In the future, customers will need to make fewer trips to their banks or other financial institution because transaction will be handled mainly over the telephone, through a conveniently located computer terminal or through “Smart cards” that have prepayment encoded information. The hometown financial institution loses much of its convenience advantage for local customers. It will be nearly as convenient for the customer to maintain a checking, savings and loan account in a city hundreds of miles away as to keep it in a local financial institution.

2.1.18 Consumer Lending Institution

Financial intermediaries’ bank, saving and loan associations’ credit unions and finance companies account for most of the loan made to consumer in the economy. Intermediaries also dominate market for non installment credit and make the bulk of home mortgage loans. Although each type of financial institution prefers to specialize in a few selected areas of consumer lending, there has been a tendency in recent years for institutions to diversify their lending operations. One important result of this diversification has been to bring all major consumer lenders in to direct competition with each other.

2.1.18.1 Commercial Banks

Commercial banks are the most important consumer lending institution. Commercial banks approach the consumer in three different ways by direct lending, through purchases of installment paper from merchants and by making loans to other consumer lending institutions. Roughly half of all bank loans to consumers consists of mortgages to support the purchase, construction or improvement of residential dwellings, the rest consist of installment and non-installment credit to cover purchases of goods and services. In the mortgage field, commercial banks usually prefer to make long term permanent loans for family home.

Banks make a wider variety of consumer loans than any other lending institution. They grant almost half of all auto loans extended by financial institutions to consumers each year. However, most bank credit in the auto field is indirect installment paper purchased from auto buying consumer. Moreover, bank's leadership in auto lending has been challenged in recent years by finance companies and credit unions. Indeed, in many forms of consumer installment credit today, the lead of commercial banks is threatened by challenged from aggressive non banking lenders who see the consumer market as a key growth area for the future.

2.1.18.2 Finance Companies

Finance companies have a long history of lending in the consumer installment field providing funds directly to consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These active household lenders provide auto loan and credit for home improvements and for the purchase of appliances and furniture. Finance companies often face state imposed legal limits of the interest rates they can charge for household loans and on maximum loan size.

2.1.18.3 Other Consumer Lending Institutions

Other Consumer Lending Institution includes credit unions, saving and loan association and saving banks. Credit union make a wide variety of loans for such diverse purpose as purchase of automobiles, home repair and more recently mortgage credit for the purchase of new homes. Also important in the consumer loan field in recent years have been savings and loan

and saving banks, which experienced dramatic growth and even decline due to inadequate capital and the public's fears about the long run soundness of some of these institutions.

Although these institutions have long been dominant in residential mortgage lending, they have moved aggressively to expand their portfolios of credit card, education, home improvement furniture, appliance and mobile home loans over the past decade. (Gupta, 2002:153)

2.2. Review of Related Studies

This section includes the review of some related article on different journals, magazines, newspapers and other related books.

2.2.1 Review of Articles

Banks lending in the productive sector directly impact in the gross domestic product. In the productive sector, lending creates the employment which helps to increase the income level of the people. If the income level is increased it directly affects the Gross Domestic Product.

Wholesale banking refers to dealing with large corporate customer often multinational companies, government or government enterprises. Wholesale banks usually deal with small numbers of customer with large valued transaction. They mobilize the funds from and lend funds to the business undertakings. Wholesale banking is the term used for transactions between banks and large customers involving large amount of money. It includes the transactions, which the banks conduct with each other via inter banks markets. On the other hand, retail banking refers to the mobilization of deposits mainly from individual and lending to small business and in retail loan markets. Retail banking consists of large volume of low value transactions. Retail banking liabilities are mostly related to various types of deposits account and the loan portfolio is dominated by the consumer loans.

The needs of the corporate sector are diverse in nature. This diversity and complexity stems from the multifaceted nature of company's operations. Today, a typical company is engaged in expansion, diversification, imports exports, restructuring which require pre project facilities, term loan, short term loan facilities, export and import financing and fundraising. Many of the corporate clients enjoy fund surplus during a certain time period. They may ask the bank to offer portfolio management services in order to achieve maximum return on

funds. Corporate clients also need risk management services such as forward contracts, interest rate and foreign currency swaps, floating rates, etc.

While a few banks specialize in wholesale banking or retail banking, there is no longer a complete separate wholesale or retail banking in Nepal. Most of the banks combine retail and wholesale banking operation. Some of the banks have separate division or unit dealing corporate customers. The skill and knowledge required carrying out the wholesale and retail banking business are different. However, there are some common critical success factors such as customer orientation, investment in technology etc. In the competitive environment the banks need to reorient and equip themselves with modern techniques of banking to face the increasing competition.

Retail banking was viewed primarily as a cost centre and source of low cost deposit. But, this day, retail banking represents a major source of competitive strength for a banking industry, as it is a point of direct customer contact. Retail services are uniquely positioned to help banks develop strong long term relationships with targeted customers and thus differentiate themselves from competitors. Banks look up to retail lending as a possible avenue to augment business in the current context. Consumer financing appears to be a viable alternative to cope with poor credit off takes.

Consumer financing encompasses extension of loans for customer durable goods, education loans, finance for travel, medical expenses etc. Demand for loans for acquisition of TV, fridge, washing machine, air conditioners etc., is on the rise. Banks also offer loans through tie ups with manufacturers or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income level of the people, and availability of finance for even second hand cars. In fact on account of liberal financing by banks, import of passenger cars, motorcycles and scooters, has registered good growth. (Sources: Lending Operation of Commercial Banks of Nepal and its Impact on GDP www.nepalnews.com).

Dhakal (2007), in his articles, "*Performance Evaluation of the Commercial Banks*," concludes that joint venture banks are new, operationally more efficient having superior performance comparison with local banks. Better performance of JVBs is due to their complicated technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing peers. Provision for

possible losses to loans and advances ratio in NBBL exceeded than in NABIL, which indicates that loan and advances grants by the banks are inferior in contrast to NABIL.

Bista (2007), in his research paper, “*Nepalma Adhunik Banking Byabastha*” has made an attempt to highlight some of the important indicators which have contributed to efficiency and performance of JVBs in the fields of CBs. At the end of the paper, he has concluded that the establishment of JVBs a decade ago marks the beginning of the modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy.

Bajracharya (2009), in his articles, “*Monetary Policy and Deposit Mobilization in Nepal*” has concluded that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediaries for generating resources in the form of deposits of private sectors and providing credit to the investors in different sectors of the economy.

2.2.2 Review of Previous Research

There are very few theses and research works of the same kind in Nepal. The review and extracts from them are presented below.

Shrestha (2008) in his thesis paper, “*Comparative financial performance appraisal of joint venture banks*” has studied mainly three banks i.e. Nepal Arab Bank Ltd (NABIL), Nepal Indosuez Bank Ltd.(NIBL), and Nepal Grindlays Ltd. (SCBNL). His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do so as good as NABIL and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs development programmes, to play merchant banking role to mobilize.

His Main Objectives are as follows:

- Hence, the bank has been suggested to manage its investment portfolio efficiency
- Operational efficiency of the bank is indicated by the operational loss has been found unsatisfactory.

His Research Methodologies are as follows:

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Loans and advances to Total Risk Weighted Assets Ratio, non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing Loan, Arithmetic Mean Standard Deviation and Hypothesis Test.

His Major Findings are as follows:

- To analyze the lending practices and resources utilizations of NB bank.
- To examine the correlation and the signification of their relationship between different ratios related to capital structure

Poudel, (2009) on his thesis entitled, *“A comparative study of financial performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd.”* The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. He conducted a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL, so it is recommended to NBBL to utilize its resources more effectively.

His Main Objectives are as follows:

- These are indeed significant milestone in the financial development process to the economy
- But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

His Research Methodologies are as follows:

The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, Probable Error and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.

His Major Findings are as follows:

- He has further suggests that both the banks should extends their resources to rural areas to promote development

- Hence, the bank has been suggested to manage its investment portfolio efficiency

Pokhrel (2010) on his thesis entitled, “*A comparative study on financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd.*” was concluded to analyze, examine and interpret the financial performance of NBBL and NABIL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in NABIL suggests greater fluctuation in the ratio over the period. NABIL found to be weaker in utilizing the bank assets for the profit generation. NABIL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio.

His Main Objectives are as follows:

- His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools such as statistical tools and financial tools i.e. Earnings per Share, Price Earnings Ratio, Return on Total Assets Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient, Probable Error and Regression Analysis.

His Major Findings are as follows:

- Therefore, there should be the awareness program, regularly conducted in terms of seminars
- Workshop from well experienced personnel such as top executives from banks and concerned regulating authorities.
- They should introduce novel technology and equipment's to collect deposit.

Sapkota (2011) in his study entitled, “*Evaluating of the financial performance of Nepal Bank Limited*” has calculated and analyzed the different ratios by observing figures of balance sheets of Nepal Bank Limited for the period FY 2038/39 to 2049/50. He remarked that the bank is not found to have been able to utilize its fund effectively and efficiently for the development of the economy.

His Main Objectives are as follows:

- The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions.
- The deposit funds in productive sectors and to grants more priority to the local manpower.

His Research Methodologies are as follows:

The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Non Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error, Regression Analysis and Test of Hypothesis.

His Major findings are as follows:

- Economic development of a country cannot be imagined without the development of commerce and industry
- He has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd.

Maharjan (2012) on his thesis entitled, “*A study on Investment policy analysis of Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks (NABIL and HBL).*” The main objective of the study was to evaluate the liquidity. Assets management, efficiency, profitability and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL. The study found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among two banks. Profitability position of NGBL is better than NABIL and HBL.

His Main Objectives are as follows:

- Constraints of socio- economic political system on one hand and that of issues and challenges of JVBs commanding significant banking business of other spectrum
- The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions,
- They should introduce novel technology and equipment’s to collect deposit.

His Research Methodologies are as follows:

In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Debt to Equity ratio, Debt Ratio Interest Coverage Ratio, Earnings per Share, Price Earnings Ratio, Return on Total Assets, Return on Share Holder's Fund or Equity, Arithmetic means, Standard Deviation and Correlation Coefficient.

His Major Findings are as follows:

- On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out.
- NRB should also encourage frequent training to new entrants to provide orientation on the conceptual dimensions and practical aspects of operation of the banks

Thapa (2013) on his thesis entitled, *“Retail Banking product of Nepalese Commercial banks.”* The main objective of the study was to retail banking product and its utilization.

His Main Objectives are as follows:

- To identify the retail banking situation in Nepal
- To analyze the retail banking product and its utilization in Nepalese financial Market.

His Major Findings are as follows:

- Nepalese economy is depending on remittance income, so bank should focus these areas by providing different produce i.e. remittance card and money transfer.
- There is less investment opportunity in the country, retail banking is the best investment.
- Bank should effort to increase to cover the wide areas by increasing the branch network as well as more graphical coverage.

2.3 Research Gap

In the last few years some Nepalese banks are adopting the retail banking concept to grab the high and middle level consumer of urban areas and sustain the bank's profitability. Today, retail banking is one of the important means of funds utilization in commercial banks. For Nepal, it is extremely new and emerging concept. Retail banking is the new topic for the Nepalese researchers. Very few researches have been conducted under this topic. The research has been carried on Indian context but in Nepalese context, only research related to home loan has been done. The researcher could not find any systematic study carried out on this topic in Nepalese context. This study covers the current scenario of home loan, auto loan and personal loan in Nepalese context.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific method to be adopted in a systematic study. Research methodology describes the method and process applied in the entire aspect of the study. It is way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. Where we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them (Francis, 1983:110).

Research is common parlance of to a search for knowledge one can also define research as a scientific and systematic search for pertinent information on a specific topic. The advanced learner's dictionary of current English lays down the meaning of research as a careful investigation or inquiry especially through search for new facts in any branch of knowledge. It may understand as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by researcher problem along with logic behind them (1990:10). Research is the systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well throughout activities of gathering, recording, analyzing and interpreting answers to the problem (Wolf and Pant: (1999:230).

This chapter looks into research design, data gathering procedure, data processing, nature and sources of data, tools of analysis. By analyzing only aspects, the clear picture of financial position of such big public organization cannot be understood. Therefore, the study tried to only have a glance on it. The research design is less descriptive and more prescriptive because the historical secondary data have used to analysis the variables. For analytical purpose, the annual reports published by NEA collected.

3.1 Research Design

The research design is the plan structure and strategy for investigation of the facts in order to arrive at conclusion. Research design is the plan to obtain the answer to the research question through presentation and analysis of data. The Descriptive cum analytical research design is used for this research. The first purpose of research design is to enable the researcher to

answer research questions as validity, objectively, accurately and economically as possible. Similarly, the second purpose of research design is to control variance among sets up the instructions to the test of the relationship among variables. It is a set of instructions to the researcher to collect and analyze the data in a systematic manner. It suggests the researcher for what observations to make, how to make and how to analyze the quantitative information that is gathered. It will help the researcher to control variance. “Research design is the plan structure and strategy of investigation conceived so as to option answers to research question and control variance.” – Kerlinger (1986:275).

3.2 Population and Sample

“The large group about which the generalization is made is called the population under study and small portion on which the study is made is called the sample of the study” (Shrestha&Silwal, 2057:215)

Sampling techniques is very much essential for conducting a research. It allows the researcher to make an intensive study of the research problem. When the study of whole population is not possible, sampling techniques is adopted. The ideal sampling represents the whole universe accurately. For selecting the samples out of 30 commercial banks, 2 customer friendly retail banking player banks are selected. They are as follows.

- NABIL Bank Limited
- NIBL Bank Limited

3.3 Source of Data

This research study is mainly based on the secondary data that are available in the published form as well as primary data are also referred. The required data for the study has been collected from the concerned organizations. Following are the secondary sources of data used in the study:

- Annual reports, newsletters, brochures etc. of the selected banks.
- Textbooks, articles published in newspapers, journals magazines etc.
- Banks websites and other relative websites.
- Questionnaire to bank officials, depositors and academicians

3.4 Data Collection Techniques

In order to make the study more reliable and authentic different tools and techniques are used throughout the study. Primary data has been obtained through questionnaire, direct interviews, field visits and telephone inquiries. For secondary data annual reports, brochures, etc. has been collected from different department of concerned banks a websites were also used for downloading the necessary information.

3.5 Data Processing and Presentation

Most of the data collected are not is the same form that this study requires. That's why the data has been processed or changed from its original form to the required form where necessary and where it is not necessary the original form of the data has been used throughout the study and these data are presented in table, diagram and chart with supporting interpretation, models to find meet the present objectives of the study.

3.6 Data Analysis Tools

Analysis and presentation of the data is the core of each and every research work. In order to get correct result from this research, data are analyzed by using different types of descriptive and analytical tools. In this study, various mathematical and statistical tools have been used to achieve the objective of the study.

The various tools applied in this study, have been briefly presented as under:

3.6.1 Secondary Data Analysis Tools

3.6.1.1 Statistical Tools

The relationship between two or more variables can be measured by using statistical tools. In this study, the following statistical tools are used.

Correlation Co-efficient (r)

Correlation analysis is the statistical tool that can used to describe the degree to which one variable is nearly related to other variables. It is calculated to measure the degree of association between two variables. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other

variables. Correlation coefficient describes not only the magnitude of the correlation but also its direction. It always lies between +1 and -1.

If $r=+1$, there is perfect positive correlation between two variables.

If $r=-1$, there is perfect negative correlation between the two variables.

If $r=0$, the variables are uncorrelated.

When r lies between 0.7 to 0.999 (-0.7 to -0.999), there is a high degree of positive (or negative) correlation.

When r lies between 0.5 to 0.699, there is moderate degree of correlation.

The simple collocation Coefficient between two variables is calculated by using following formula.

$$\text{Correlation Coefficient (r)} = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \sum x^2 - \sum x^2} \sqrt{n \sum y^2 - \sum y^2}}$$

Retail banking and its products are associated with many variables like per capita GDP, marketing expenses, interest rate, branch network, geographical reach etc. whose degree of relation is measured by correlation coefficient.

Coefficient of Determination (r^2)

The square of simple correlation coefficient is called coefficient of determination. It explains to what extent the variation of a dependent variable is expressed by the independent variable. A high value of coefficient of determination shows a good listed relationship between the two variables. If the value of coefficients or correlation, $r = 0.09$, then the coefficient of determination, $r^2 = 0.81$, which means that 81% of the total variation in the value of the dependent variable has been explained by the change in the value of independent variable. It is much easier to understand the meaning of r^2 than r and therefore, coefficient of determination is preferred while presenting the result of correlation analyses.

Probable error (P, E) of Correlation Coefficient

The probable error of the correlation coefficient helps to interpret its value. It is denoted by P.E which is the measure of testing the reliability of the calculated value of r . If r be the calculated value of r from sample of n pair it observation, the P.E is denoted by;

$$\text{P.E} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

It can be interpreted to know whether its calculated value of r is significant or not in following ways.

If $r < 6P.E$, it is not significant. So perhaps there is no evidence of correlation.

If $r > 6P.E$, it is significant. That is, correlation coefficient is certain.

Trend Analysis

Forecasting is an essential tool in any decision-making. Analysis is carried out to determine rate in the past data. Trend analysis is adopted to ascertain future. The trend analysis is taken as a tool to forecast the future position of commercial banks. The equation used to obtain the trend values is

$$Y = a + bx$$

$$\text{Where, } a = \frac{\sum y}{n}$$

$$b = \frac{\sum xy}{\sum x^2}$$

y = dependent variable

x = deviation from some convenient time period

b = slope of trend line or annual rate of growth

a = y -intercept.

Variables

Variable are characteristics of person, things, groups, and objects etc. A variable is thus a symbol to which numerals or values are assigned. In other words, a variable can take on many values (Pant & Wolff, 2005: 130). Interest rate, inflation, per capita GDP, investment amount etc. are variables under study.

Dependent Variables

A variable is called dependent variable if its values depend upon the other variables. The researcher's purpose is to study, analyze the variability in the dependent variable.

Independent Variables

A variable is called independent variable if it is not influenced by any other variable under study. Any change in the independent variables either positive or negative, leads to change in the dependent variable. Thus, the independent variable is those, which are used as the basis of the dependent variable is the variable that is being predicted.

3.6.2 Primary Data Analysis Tools

Data generated through questionnaires and personal interviews of commercial bank managers, officers, academicians and customers are analyzed by using mean ranking descriptive method and presented in the table wherever necessary. The study is confined to limited banks considering the time constraint. Generally primary data is based on survey of personal interview and questionnaire.

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the findings that have been outlined are subjected to scrutiny in terms of what they might mean. They are literally discussed and analyzed with reference to the theories and ideas, issues and problem that were noted earlier in the thesis at providing the context in which the research was conceived. This chapter deals with the analysis and interpretation of data according to the research methodology to attain of the study. During analysis, data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the data have been analyzed and they are used to evaluate the financial position of sampled Banks.

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure. The main objective of the study is to present data and analyze them with the helps of various financial and statistical tools. This chapter consists of analysis and presentation of empirical data. The important variables are very sensitive and taken into consideration, so this chapter will present the analysis of retail Banking on commercial Banks. In this chapter the different types of financial tools and statistical tools to find out the research problem.

4.1 Analysis of Financial Position of Sampled Banks.

Financial analysis is the profound study of the financial position of an institution. It is totally based on the calculation and evaluation of various financial ratios, specially the ratios related to the retail banking of selected banks. This section deals with the different types loan i.e. Auto loan, Home loan and education loan of the sampled banks. Its analysis of different position of different types of loan which is categorized into retail banking. Following three categories of loan are presented in this section:

4.1.1 Position of Auto Loan

A loan that establishes consumer credit that is granted for personal use; usually unsecured and based on the borrower's integrity and ability to pay. Nepalese market is the growing market for auto vehicles. There are so many world class vehicle showrooms. Nepalese consumer has diverted their preference to own market. That helped to boost in vehicle loan.

Table 4.1

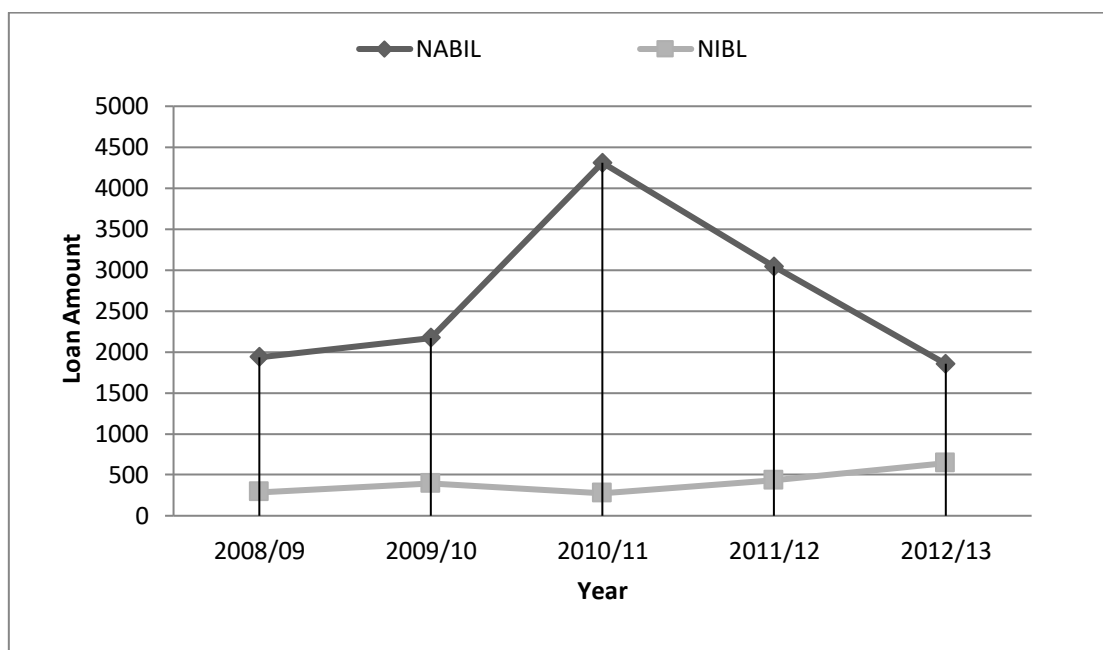
Position of Auto Loan (RsIn Millions)

Year	NABIL	NIBL
2008/09	1934.64	285.60
2009/10	2171.50	393.00
2010/11	4310.00	274.00
2011/12	3043.78	432.35
2012/13	1854.28	642.65
Total	13314.2	2027.6

Source: Banking & financial Statistics of NRB 2008 to 2013

Figure: 4.1

Trend of Auto Loan



Above table and figure shows that the auto loan of NABIL and NIBL in f/y 2008/09 auto loan of NABIL is Rs 1934.64 million than it is highly increase to 4310 million in fiscal year 2010/11 and than it decrease to 1854.28 million in fiscal year 2012/13. Similarly the auto loan of NIBL is lower than the NABIL it is Rs 285.60 million in fiscal year 2008/09. The auto loan of NIBL is volatile. It is Rs 642.65 million in fiscal year 2012/13. From above table it shows that the auto loan of NABIL is higher than other two sampled Banks.

4.1.2 Position of Home Loan

Loan acquired from a financial institution to purchase a home. Home loans consist of an adjustable or fixed interest rate and payment terms. Home loans may also be referred to as mortgage loans. Home loan automatically becomes the area of focus when retail banking becomes a priority. Home is one of the important needs of any human being. Stressing on the crucial role and opportunities in housing loans, most of the bank first priority is home loan. Due to different reason like changing culture, government support, urbanization etc. home loan is leading in the retail banking industry.

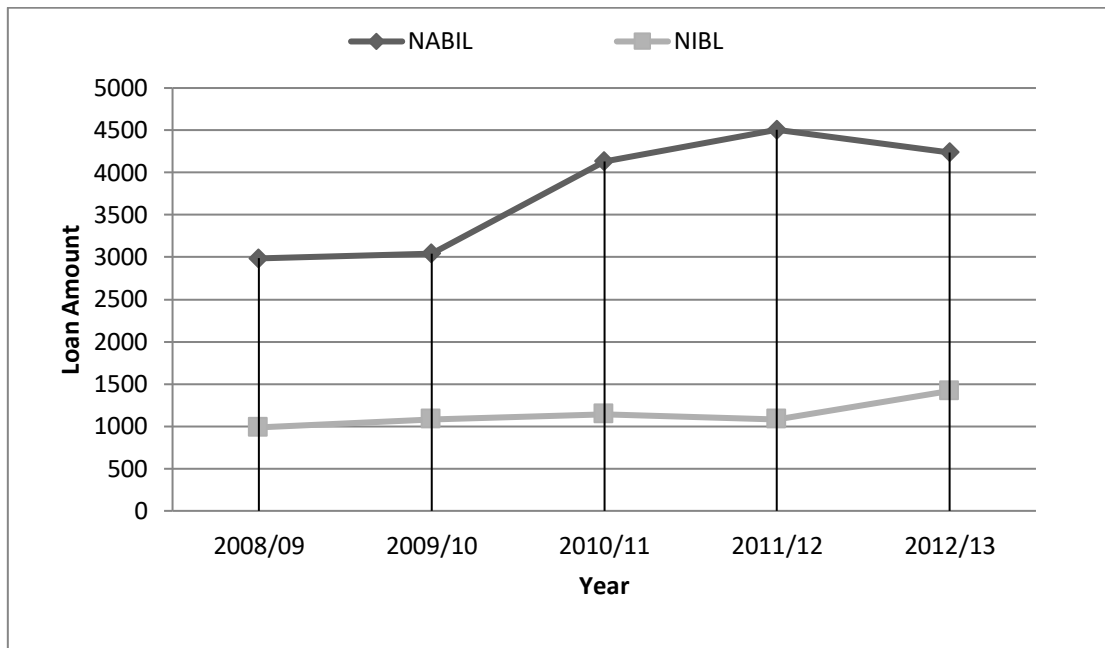
Table 4.2

Position of Home Loan(RsIn Millions)

Year	NABIL	NIBL
2008/09	2985.19	987.14
2009/10	3043.78	1084.21
2010/11	4132.00	1142.00
2011/12	4506.13	1084.21
2012/13	4239.00	1417.78
Total	18906.1	5715.34

Source: Banking & financial Statistics of NRB 2009 to 2013

Figure: 4.2
Trend of Home Loan



Above table and figure shows that the home loan of NABIL and NIBL in f/y 2008/09 to 2013. Home loan of NABIL is higher than other sampled banks. Home loan of NABIL is Rs 2985.19 million in fiscal year 2008/09 than it is increase every year. It reach to Rs 4506.13 million in fiscal year 2011/12. Similarly the home loan of NIBL is lower than the NABIL it is Rs 987.14 million in fiscal year 2008/09. The home loan of NIBL is increasing trend except fiscal year 2012/13. From above table it shows that the home loan of NABIL is higher than other two Banks.

4.1.3 Position of Education Loan

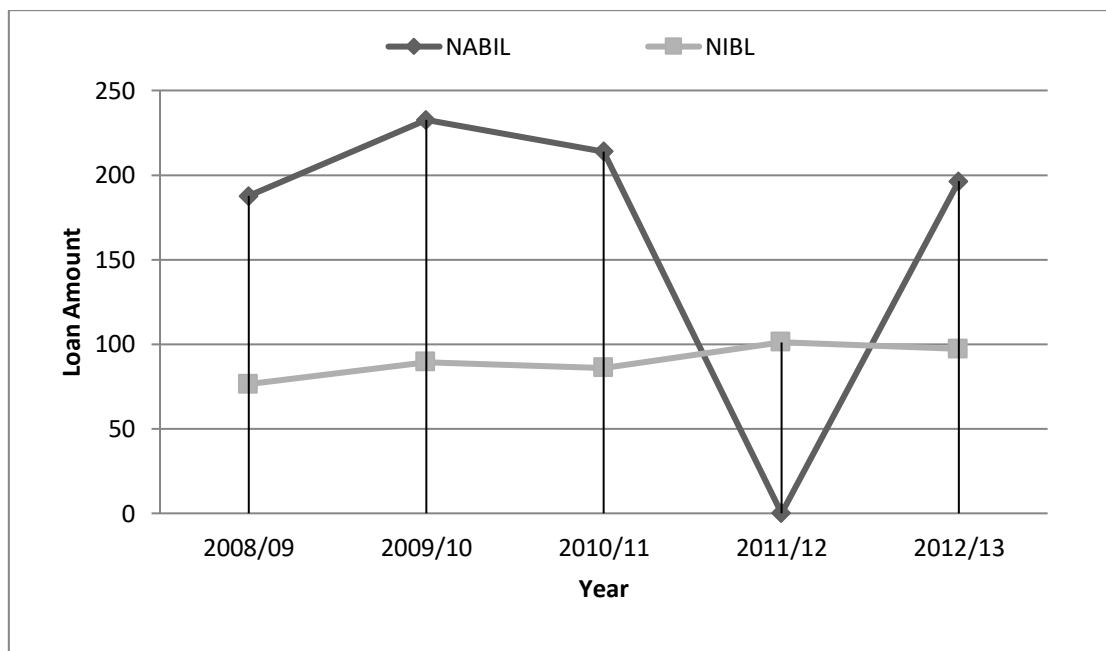
A student loan is designed to help students pay for university tuition, books, and living expenses. It may differ from other types of loans in that the interest rate may be substantially lower and the repayment schedule may be deferred while the student is still in education. It also differs in many countries in the strict laws regulating renegotiating and bankruptcy.

Table 4.3
Position of Education Loan(RsIn Millions)

Year	NABIL	NIBL
2008/09	187.7	76.4
2009/10	232.6	89.3
2010/11	214.0	86.0
2011/12	0	101.13
2012/13	196.36	97.13
Total	830.66	449.96

Source: Banking & financial Statistics of NRB 2009 to 2013

Figure: 4.3
Trend of Education Loan



Above table and figure shows that the education loan of NABIL and NIBL. The Education loan is lower than other loan. in f/y 2008/09 Education loan of NABIL is Rs 187.7 million than it is increase to Rs 214.0 million in fiscal year 2010/11 and in fiscal year 2011/12 NABIL has no provided education loan in fiscal year 2012/13 education loan is Rs 196.36 million Similarly the education loan of NIBL is lower than the NABIL it is Rs 76.4 million in fiscal year 2008/09 and it increase to Rs 101.13 in fiscal year 2012/13.

4.2 Statistical Analysis

The main objective of this unit is to use the statistical tools such as co-efficient of correlation, trend analysis and test of hypothesis between different variables and come up with the suitable decision. In other words, the major motive is to explore to check of home loan, auto loan and education loan. Since few years, financial institutions are not getting appropriate avenues for investment. So they are forced to search new sector for investment and ultimately enter into retail banking. This scenario has diverted most of the investable fund of bank to retail sectors. To some extent such finance is good, but large finance on such sector is not good for country's economy because they are non-productive sector.

4.2.1 Correlation Analysis

To find out the correlation between two continuous variables, Karl Pearson's co-efficient of correlation (r) is used. One of the very convenient and useful way of interpreting the value of coefficient of correlation (r) between the two variables is coefficient of determination, which is denoted by r^2 . It explains the total variation in dependent variable is explained by independent variable.

The significance of coefficient of correlation (r) is tested with the help of 't' test. If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and null hypothesis is accepted or 'r' is not significant, if calculated 't' is greater than tabulated 't' null hypothesis is rejected or 'r' is significant of correlation in the population.

4.2.1.1 Coefficient of Correlation between Auto loan and Home loan of NABIL

Coefficient of correlation is an statistical tool which studies the relationship between two variables, and the analysis involves various methods and techniques used for studying and measuring the extent of the relationship between two variables. Here we study the degree of relationship between two variables one of them is independent variable and another is dependent variable. The Karl Pearson's method popularly known as Pearson's co-efficient of correlation is mostly used for calculating the coefficient of correlation in practice. The Pearson's co-efficient of correlation is denoted by "r" which shows the relationship between two variables. Correlation analysis among various statistical tools is preferred in this study to identify the relationship between variables, and measure the significance of the relationship.

Table: 4.4

Relation between Deposit and investment

Factor	Value
Correlation (r)	0.44828
Coefficient of Determination (r ²)	0.2331
Calculated 't' Value	0.886
Tabulated 't' Value	2.201
Remarks	insignificant

Source: Appendix I

The above table describes the relationship between Auto loan and Home loan during the period of study. The coefficient of correlation (r) between Auto loan and Home loan is 0.44828. This figure shows the positive correlation between Auto loan and Home loan. It means Auto loan and Home loan both move towards same direction.

The coefficient of determination (r²) is 0.2331 it shows that 23.31% of the variation in the dependent variable has been explained by the independent variable. The value of P.E.(r) is 0.2313 and 6.P.E (r) is 1.3878. The value of correlation coefficient (r) is less than of probable error (6.P.E (r)). Therefore true value of 'r' is insignificant. It reveals that there is insignificant relationship between the Auto loan and Home loan.

4.2.1.2 Coefficient of Correlation between Auto loan and Home loan of NIBL

Here we study the degree of relationship between two variables one of them is independent variable and another is dependent variable. The Karl Pearson's method popularly known as Pearson's co-efficient of co-relation is mostly used for calculating the coefficient of correlation in practice. The Pearson's co-efficient of co- relation is denoted by "r" which shows the relationship between two variables. Correlation analysis among various statistical tools is preferred in this study to identify the relationship between variables, and measure the significance of the relationship.

Table: 4.5

Relation between Deposit and investment

Factor	Value
Correlation (r)	0.8542
Coefficient of Determination (r ²)	0.7296
Calculated 't' Value	2.845
Tabulated 't' Value	2.201
Remarks	Significant

Source: Appendix II

The above table describes the relationship between Auto loan and Home loan during the period of study. The coefficient of correlation (r) between Auto loan and Home loan is 0.8542. This figure shows the positive correlation between Auto loan and Home loan. It means Auto loan and Home loan both move towards same direction.

The coefficient of determination (r²) is 0.7296 it shows that 72.96% of the variation in the dependent variable has been explained by the independent variable. The value of P.E.(r) is 0.0816 and 6.P.E (r) is 0.4896. The value of correlation coefficient (r) is greater than of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the Auto loan and Home loan.

4.3 Trend Analysis

Forecasting is an essential tool in any decision-making. Analysis is carried out to determine rate in the past data. Trend analysis is adopted to ascertain future. The trend analysis is taken as a tool to forecast the future position. The equation used to obtain the trend values is

$$Y = a + bx$$

$$\text{Where, } a = \frac{\sum y}{n}$$

$$b = \frac{\sum xy}{\sum x^2}$$

y=dependent variable

x=deviation from some convenient time period

b=slope of trend line or annual rate of growth

a=y-intercept.

4.3.1 Trend Analysis of Auto loan of NABIL

The trend analysis of auto loan shows the trend value and actual value of auto loan of NABIL for the fiscal year 2009 to 2013 and forecast the loan for next 3 years are given in the following table.

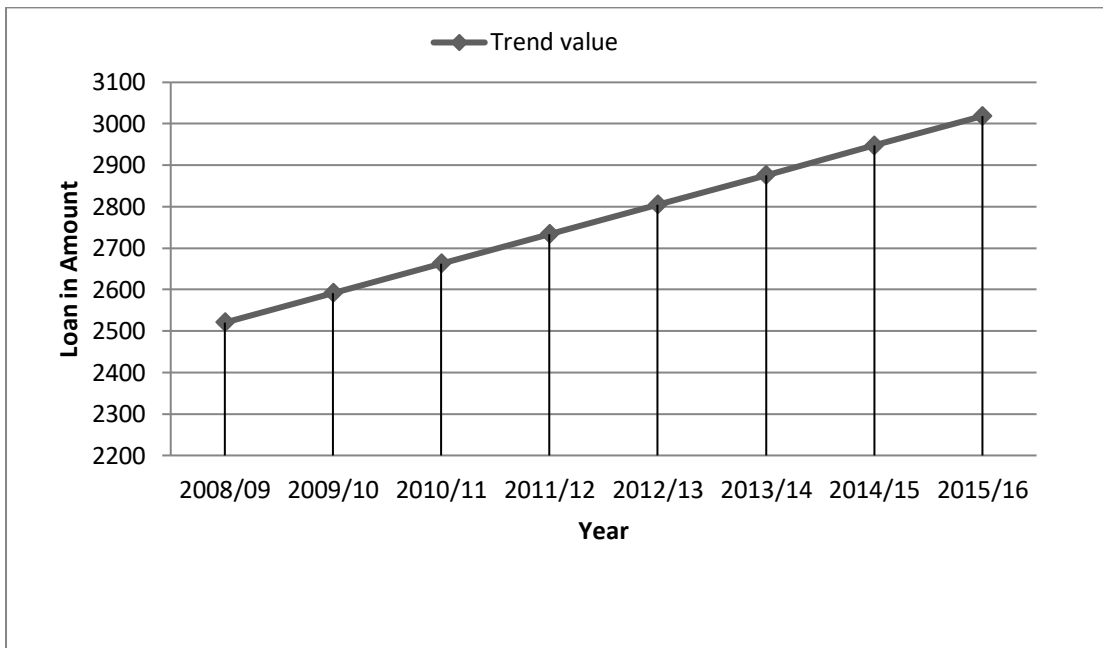
Table: 4.6
Trend Volume & Actual Volume of auto loan

Fiscal year	Actual value	Trend value
2008/09	1934.64	2520.52
2009/10	2171.5	2591.68
2010/11	4310	2662.84
2011/12	3043.78	2734
2012/13	1854.28	2805.16
2013/14	-	2876.32
2014/15	-	2947.48
2015/16		3018.64
Mean (a)	2662.84	
Rate of Change (b)	71.16	
Trend Line (y)	$Y = 2662.84 + 71.16X$	

Source: Appendix-IV

Figure: 4.4

Trend analysis of auto loan of NABIL



Above table and figure shows that the increasing trend of auto loan. Since, the calculated value of 'b' is positive it is found that the NABIL auto loan is increasing with time.

4.3.2 Trend Analysis of Auto loan of NIBL

The trend analysis of auto loan shows the trend value and actual value of auto loan of NIBL for the fiscal year 2009 to 2013 and forecast the loan for next 3 years are given in the following table.

Table: 4.7

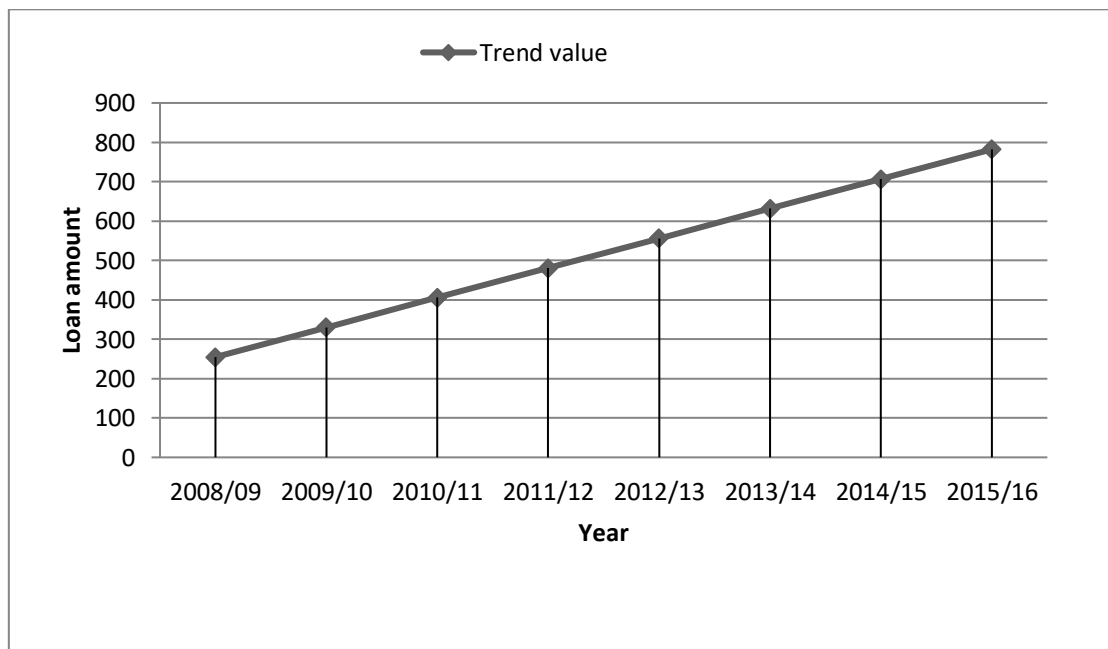
Trend Volume & Actual Volume of auto loan

Fiscal year	Actual value	Trend value
2008/09	285.60	254.82
2009/10	393.00	330.17
2010/11	274.00	405.52
2011/12	432.35	480.87
2012/13	642.65	556.22
2013/14	-	631.57
2014/15	-	706.92
2015/16		782.27
Mean (a)	405.52	
Rate of Change (b)	75.35	
Trend Line (y)	$Y = 405.52 + 75.35X$	

Source: Appendix-V

Figure: 4.5

Trend analysis of auto loan of NIBL



Above table and figure shows that the increasing trend of auto loan. Since, the calculated value of 'b' is positive it is found that the NIBL auto loan is increasing with time.

4.4 Result of Empirical Investigation

An empirical investigation has been conducted in order to fine out various aspectsof Retail banking in Nepal from the real life experience. The major tool used for thispurpose is an opinion survey through a set of structured questionnaire. A some of questionnaire were distributed to three groups of respondents i.e. Bankersand customers. The responses received from these respondentshave been arranged, tabulated and analyzed in order to facilitate the descriptive analysisof this study.

The questionnaire either asked for a yes/ no response or asked for ranking ofchoices Any alternatives, whichwere not ranked, did not get any point. The total points available to each choice wereconverted into percentages in reference to the total points available to each choice. Thechoice with the highest score of percentage is ranked as the most important choice andone with the lowest percentage being ranked as least choice. The following table showsthe group of respondents and code used to represent them.

The respondents have divided into two groups. Following table shows the groups and number of respondents:

Table: 4.8

Group of Respondents and Number from Each Group

S.N.	Group of respondents	Sample size
1	Bankers	15
2	Customers	20
	Total	35

Source: Opinion survey, 2012/13.

The questionnaire was either asked for yes/no response or asked for ranking of choice according to their preference. Their first choice is most important and last is least important. Weight is assigned according to number of alternatives to their choice for analysis purpose. The choice with highest score of preference is ranked as the most important choice and vice versa.

The finding form this survey has been analyzed below:

4.4.1 Knowledge about Retail Banking

To know about situation of retail banking, two questions were asked, “Do you have knowledge of retail banking”? The responses received from the respondents are tabulated below.

Table: 4.9

Knowledge about retail banking

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Bankers	15	100	0	0	15	100
Customers	10	50	10	50	20	100
Total	25	-	6	-	35	100

Source: Opinion survey, 2012/13.

From the above table we observed that 100% of bankers have the knowledge of retail banking. There is no problem in it. But only 50% of customer have full of knowledge.

4.4.2 Preference for Retail Banking Product

In the second question, the respondents were asked to rank the different retail banking product in terms of their preference.

Table: 4.10

Preference for Retail Banking Product

Option	Respondent	
	Bankers	Customers
Home Loan	4	8
Auto Loan	6	7
Education Loan	5	5
Total	15	20

4.4.3 Are you aware about the deposit and lending of commercial banks ?

To know about the deposit and lending of retail banking, two questions were asked, The responses received from the respondents are tabulated below.

Table: 4.11

Aware about deposit and lending

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Bankers	15	100	0	0	15	100
Customers	12	60	3	40	20	100
Total	27	-	3	-	35	100

From the above table we observed that 100% of bankers have the aware of retail banking on deposit and lending. From above 60% of customer have full of knowledge about deposit and lending of commercial.

4.4.4. Did you think that Retail banking helps to increase in economic activity on the nation?

To know the view of respondents whether it helps to increase in economic activity on the nation was asked, The opinion result is summarized in the following table:

Table: 4.12

Retail Banking helps to increasing economic activity

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Bankers	13	87	2	13	15	100
Customers	12	60	3	40	20	100
Total	25	-	5	-	35	100

From the above table we observed that 87% of bankers said retail banking helps to increase in economic activity on the nation but 60% customer said retail banking does not helps to increase economic activity on the nation.

4.4.5 Retail Banking gives opportunity to the rural areas people to make their purchasing power by providing different types of loan do you agree?

The questionnaire Retail Banking gives opportunity to the rural areas people to make their purchasing power by providing different types of loan do you agree?. To know the view of respondents whether it helps to increase in economic activity on the nation was asked, The opinion result is summarized in the following table:

Table: 4.13
Retail Banking gives opportunity to the rural areas

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Bankers	15	100	0	0	15	100
Customers	18	90	2	10	20	100
Total	33	-	2	-	35	-

From the above table observed that 100% of bankers said retail banking gives to opportunity to the rural area people to increasing their helps to increase in economic activity on the nation but 60% customer said retail banking to increasing their purchasing power. But the customer said 90% of retail product give opportunity to make their purchasing power.

4.4.6. In which sector did you think public have get more benefit in retail banking?

To know the view of respondents which service get more benefit to retail banking was asked, The opinion result is summarized in the following table:

Table: 4.14**Public have benefit in retail banking**

Option	Respondent	
	Bankers	Customers
Loan Sector	6	7
ATM/ Debit card	4	8
Other service	5	5
Total	15	20

From the above table we observed that 6 banker prescribed loan sector but in the side of customer 7 respondent prescribed loan sector. On the another side 4 banker and 8 customer prescribed ATM/ Debit card.

4.4.7 Did you satisfied about the retail banking service on the rural area?

To know about the satisfied of retail banking, two questions were asked, The responses received from the respondents are tabulated below.

Table: 4.15**Retail banking service on the rural area**

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Bankers	15	100	0	0	15	100
Customers	12	60	8	40	20	100
Total	27	-	8	-	35	100

From the above table we observed that 100% of bankers have satisfied of retail banking on deposit and lending. From above 60% of customer have satisfied about retail banking services

4.5 Major findings

4.5.1 Findings from secondary data

- Above table and figure shows that the auto loan of NABIL and NIBL in f/y 2008/09 auto loan of NABIL is Rs 1934.64 million than it is highly increase to 4310 million in fiscal year 2010/11 and than it decrease to 1854.28 million in fiscal year 2012/13. Similarly the auto loan of NIBL is lower than the NABIL it is Rs 285.60 million in fiscal year 2008/09. The auto loan of NIBL is volatile. It is Rs 642.65 million in fiscal year 2012/13.
- Above table and figure shows that the home loan of NABIL and NIBL in f/y 2008/09 to 2013. Home loan of NABIL is higher than other sampled banks. Home loan of NABIL is Rs 2985.19 million in fiscal year 2008/09 than it is increase every year. It reach to Rs 4506.13 million in fiscal year 2011/12.
- Similarly the home loan of NIBL is lower than the NABIL it is Rs 987.14 million in fiscal year 2008/09. The home loan of NIBL is increasing trend except fiscal year 2012/13.
- Above table and figure shows that the education loan of NABIL and NIBL. Education loan is lower than other loan. in f/y 2008/09 Education loan of NABIL is Rs 187.7 million than it is increase to Rs 214.0 million in fiscal year 2010/11 and in fiscal year 2011/12 NABIL has no provided education loan in fiscal year 2012/13 education loan is Rs 196.36 million.
- Similarly the education loan of NIBL is lower than the NABIL it is Rs 76.4 million in fiscal year 2008/09 and it increase to Rs 101.13 in fiscal year 2012/13. From above table it shows that the education loan of NABIL is higher.
- The coefficient of correlation (r) between Auto loan and Home loan is 0.44828. This figure shows the positive correlation between Auto loan and Home loan. It means Auto loan and Home loan both move towards same direction.
- The coefficient of determination (r^2) is 0.2331 it shows that 23.31% of the variation in the dependent variable has been explained by the independent variable. The value of P.E.(r) is 0.2313 and 6.P.E (r) is 1.3878. The value of correlation coefficient (r) is less than of probable error (6.P.E (r)). Therefore true value of 'r' is insignificant. It reveals that there is insignificant relationship between the Auto loan and Home loan.
- The above table describes the relationship between Auto loan and Home loan during the period of study. The coefficient of correlation (r) between Auto loan and Home loan is 0.8542.
- The coefficient of determination (r^2) is 0.7296 it shows that 72.96% of the variation in the dependent variable has been explained by the independent variable. The value of P.E.(r) is

0.0816 and 6.P.E (r) is 0.4896. The value of correlation coefficient (r) is greater than of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the Auto loan and Home loan.

- The coefficient of correlation (r) between Auto loan and Home loan is 0.9743. This figure shows the positive correlation between Auto loan and Home loan. It means Auto loan and Home loan both move towards same direction.
- The coefficient of determination (r^2) is 0.9439 it shows that 94.39% of the variation in the dependent variable has been explained by the independent variable. The value of P.E.(r) is 0.0169 and 6.P.E (r) is 0.1014. The value of correlation coefficient (r) is greater than of probable error (6.P.E (r)). Therefore true value of 'r' is significant. It reveals that there is significant relationship between the Auto loan and Home loan.
- Above table and figure shows that the increasing trend of auto loan. Since, the calculated value of 'b' is positive it is found that the NABIL auto loan is increasing with time.
- Above table and figure shows that the increasing trend of auto loan. Since, the calculated value of 'b' is positive it is found that the NIBL auto loan is increasing with time.

4.5.2 Findings from primary data

- From the above table we observed that 100% of bankers have the knowledge of retail banking. There is no problem in it. But only 50% of customer have full of knowledge.
- From the above table we observed that 100% of bankers have the aware of retail banking on deposit and lending. From above 60% of customer have full of knowledge about deposit and lending of commercial.
- From the above table we observed that 87% of bankers said retail banking helps to increase in economic activity on the nation but 60% customer said retail banking does not helps to increase economic activity on the nation.
- From the above table observed that 100% of bankers said retail banking gives to opportunity to the rural area people to increasing their helps to increase in economic activity on the nation but 60% customer said retail banking to increasing their purchasing power. But the customer said 90% of retail product give opportunity to make their purchasing power.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study enquires upon the retail banking analysis of commercial bank of Nepal. Summary of the study has been mentioned in the First section. The Second section has been designed for the finding and conclusion drawn from the study. The recommendation to eliminate the weakness, drawbacks of the retail banking. The researcher has tried to give suggestions and recommendations to the sample banks based on this research.

5.1 Summary

The economic development of every country is always measured by its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals with the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessary to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the country.

This study "*Retail Banking in Nepal*" is primarily prepared for the partial fulfillment of the requirements of master of business studies (MBS). This study is mainly based on primary and secondary data provided by the concerned banks and respondents. Among the 31 listed commercial banks 3 commercial banks have been selected as the sample. The main objective of the study is to find out position and trends of retail banking in Nepal. Most of the listed commercial banks are of similar nature and taken to the sample similar nature banks are both providing same types of services to the customers. Information is collected during the period 2008/09 to 2012/13. The collected information is analyzed and conclusion is drawn from the study

5.2 Conclusion

This study “*Analysis of retail banking in Nepal*” tried to analyze the existing situation of retail banking in Nepal based on the data provided by the financial statement as well as other concerned information. Present study is successful to explore the findings of the result designed. For the study, various statistical tools were used as requirements of nature of data. The secondary as well as primary source of information was used for the analysis of the data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows. From this study, the researcher concludes that retail banking trend in Nepal is continuously increasing. Retail banking has started to play an important role in Nepal. In response to this there have been active efforts within the Nepalese banks to be more focused on consumer financial product and services. As the perception of retail banking is still quite low in Nepal, there is tremendous upward potential in this segment.

Again, researcher found that the Nepalese banks need to remain in the competition in retail banking, banks will need to operate efficiently, package and delivery products on time, leveraging the multiple channels of delivery such as internet banking, mobile banking, mobile cash and ATMs. The future of retail banking is dependent on technology, marketing and capital employment on the sector. Technology facilities reduction in transaction cost and provides the ability to do business in volumes. Banks have to prepare themselves to face soft interest regime. New kinds of management skills are required to manage the retail lending portfolio. Banks are competing in the retail banking area on the basis of home loan, auto loan, education loan and debit card and credit card.

5.3 Recommendations

Based on the study, it is found that the retail banking is in increasing trend. Among the sample has disbursed higher amount of home loan and auto loan. NABIL has disbursed the higher amount of auto loan. On the basis of the foregoing finding and conclusion, the following recommendations are made to improve retail banking policies and schemes.

- When there is less investment opportunity in the country, retail banking is the best investment. Regarding this NABIL and NIBL have disbursed large amount of fund for home loan and auto loan.

- Another factor hindering the growth of retail bank is its interest rate. So the banks are requested to lower down the interest rate.
- Bank should investigate for increasing lending opportunities by adopting new strategies and the bank should be innovation of product which is match the requirements of the customer segments.
- Bank should effort to increase to cover the wide areas by increasing the branch network as well as more geographical coverage. In the new area, bank should make effort to tap these area consumers by providing the product suitable and reasonable for them rather than imitated product.
- Nepal is an agricultural country, that's why most of the population settles in rural areas. Agriculture related financial product like agricultural financing, micro credit should be introduced and prioritized by banks to promote this area.
- Nepalese economy is depending on the remittance income. So, bank should focus this area by providing products like remittance card, money transfer and also providing the foreign employment loan etc.
- The procedure to get loan is quite tedious and lengthy. So it is suggested to make the procedure simple and easy.
- Government should provide a regulatory climate conducive to the establishment of private specialization retail banking institutions by allowing them to compete effectively for savings and respond to market demands for loan rates.

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Websites

- www.nabilnank.com.np
- www.nibl.com.np
- www.nrb.org.np
- www.sebonp.com

Appendix I

Calculation of Correlation between Auto loan & Home loan of NABIL

Year	Auto Loan (X ₁)	Home Loan (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2008/09	1934.64	2985.19	-728.20	-796.03	579,669.05	530,275.24	633,663.76
2009/10	2171.5	3043.78	-491.34	-737.44	362,333.77	241,415.00	543,817.75
2010/11	4,310.00	4132	1,647.16	350.78	577,790.78	2,713,136.07	123,046.61
2011/12	3,043.78	4,506.13	380.94	724.91	276,147.22	145,115.28	525,494.51
2012/13	1,854.28	4,239.00	-808.56	457.78	-370,142.60	653,769.27	209,562.53
N₁ = 5, N₂ = 5	∑ X₁ = 13314.20	∑ X₂ = 18906.10			∑ x₁·x₂ = 1425798.22	∑ x₁²= 4283710.86	∑ x₂² 2035585.16

Correlation between Auto loan and Home Loan,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{453693420.2}{\sqrt{5387759009.2 \times 153480413.20}} = 0.44828$$

$$r^2 = 0.2331$$

T-value,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= \frac{0.44828}{\sqrt{1-0.2331}} \times \sqrt{5-2} = 0.886$$

For Probable Error,

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.2331}{\sqrt{5}} = 0.2313$$

$$6PE = 6 \times 0.2313 = 1.3878$$

Appendix II
Calculation of Correlation between Auto loan & Home loan of NIBL

Year	Auto loan (X ₁)	Home loan (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2008/09	285.6	987.14	-119.92	-155.93	18,698.89	14,380.81	24,313.54
2009/10	393	1084.21	-12.52	-58.86	736.90	156.75	3,464.26
2010/11	274.00	1142	-131.52	-1.07	140.46	17,297.51	1.14
2011/12	432.35	1,084.21	26.83	-58.86	-1,579.16	719.85	3,464.26
2012/13	642.65	1,417.78	237.13	274.71	65,142.46	56,230.64	75,466.68
N₁ = 5, N₂ = 5	∑ X₁ = 2027.60	∑ X₂ = 5715.34			∑ x₁.x₂ = 83139.55	∑ x₁²= 88785.55	∑ x₂² 106709.89

Correlation between Auto loan and Home Loan,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{453693420.2}{\sqrt{5387759009.2 \times 153480413.20}} = 0.8542$$

$$r^2 = 0.7296$$

T-value,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= \frac{0.8542}{\sqrt{1-0.7296}} \times \sqrt{5-2} = 2.845$$

For Probable Error,

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.7296}{\sqrt{5}} = 0.0816$$

$$6PE = 6 \times 0.0816 = 0.4896$$

Appendix III

Calculation of Trend Value of Auto loan of NABIL

The trend line $Y = a + bX$ ----- (A)

Let's assume that middle year be 3, then $X = t - 3$

Year	t	Auto loan (Y)	X= t-3	XY	X ²
2008/09	1	1934.64	-2	-3869.28	4
2009/10	2	2171.50	-1	-2175.5	1
2010/11	3	4310.00	0	0	0
2011/12	4	3043.78	1	3043.78	1
2012/13	5	1854.28	2	3708.56	4
Total		∑y=13314.2	∑X= 0	∑xy = 711.56	∑x² = 10

Since, $\sum X = 0$

The two normal equations obtained from the above equations will be

$$\sum Y = na \quad \text{----- (i)}$$

$$\sum XY = b\sum X^2 \quad \text{----- (ii)}$$

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$$\sum Y = na$$

$$\text{Or, } 13314.2 = 5 \times a$$

$$\text{Or, } a = 2662.84$$

Again, from equation (ii)

$$\sum XY = b\sum X^2$$

$$\text{Or, } 711.56 = b \times 10$$

$$\text{Or, } b = 71.16$$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$$Y = a + bX$$

$$\text{Or, } Y = 2662.84 + 71.16X$$

Calculation of Trend Values

Year	X	Auto loan	Auto loan (Y) = 2662.84 + 71.16X
2008/09	-2	1934.64	$2662.84 + 71.16 \times (-2) = 2520.52$
2009/10	-1	2171.5	$2662.84 + 71.16 \times (-1) = 2591.68$
2010/11	0	4310	$2662.84 + 71.16 \times 0 = 2662.84$
2011/12	1	3043.78	$2662.84 + 71.16 \times 1 = 2734$
2012/13	2	1854.28	$2662.84 + 71.16 \times 2 = 2805.16$
2013/14	3	-	$2662.84 + 71.16 \times 3 = 2876.32$
2014/15	4	-	$2662.84 + 71.16 \times 4 = 2947.48$
2015/16	5	-	$2662.84 + 71.16 \times 5 = 3018.64$

Appendix IV

Calculation of Trend Value of Auto loan of NIBL

The trend line $Y = a + bX$ ----- (A)

Let's assume that middle year be 3, then $X = t - 3$

Year	t	Auto loan (Y)	X= t-3	XY	X ²
2008/09	1	285.60	-2	-571.2	4
2009/10	2	393.00	-1	-393	1
2010/11	3	274.00	0	0	0
2011/12	4	432.35	1	432.35	1
2012/13	5	642.65	2	1285.3	4
Total		∑ y= 2027.6	∑ X= 0	∑ xy = 753.45	∑ x² = 10

Since, $\sum X = 0$

The two normal equations obtained from the above equations will be

$$\sum Y = na \quad \text{----- (i)}$$

$$\sum XY = b\sum X^2 \quad \text{----- (ii)}$$

Since, n = number of years under study = 5, the value of 'a' and 'b' can be calculated by solving equation (i) and (ii).

From equation (i)

$$\sum Y = na$$

$$\text{Or, } 2027.6 = 5 \times a$$

$$\text{Or, } a = 405.52$$

Again, from equation (ii)

$$\sum XY = b\sum X^2$$

$$\text{Or, } 753.45 = b \times 10$$

$$\text{Or, } b = 75.35$$

Now, putting the value of 'a' and 'b' in the equation of trend line (A),

$$Y = a + bX$$

$$\text{Or, } Y = 405.52 + 75.35X$$

Calculation of Trend Values

Year	X	Auto loan	loan (Y) = 405.52 + 75.35X
2008/09	-2	285.60	$405.52 + 75.35 \times (-2) = 254.82$
2009/10	-1	393.00	$405.52 + 75.35 \times (-1) = 330.17$
2010/11	0	274.00	$405.52 + 75.35 \times 0 = 405.52$
2011/12	1	432.35	$405.52 + 75.35 \times 1 = 480.87$
2012/13	2	642.65	$405.52 + 75.35 \times 2 = 556.22$
2013/14	3	-	$405.52 + 75.35 \times 3 = 631.57$
2014/15	4	-	$405.52 + 75.35 \times 4 = 706.92$
2015/16	5	-	$405.52 + 75.35 \times 5 = 782.27$

Appendix V
QUESTIONNAIRE

A Survey on
Retail Banking of Commercial Banks in Nepal

Dear Sir/ Madam,

I am going to conduct a research for my thesis (research study) titled as “A Study on Retail Banking of Commercial Banks In Nepal”. It would be very much appreciated if you could spare some of your valuable time for filling or answering the given questions on the base of your knowledge.

Dadhiram Pokharel

ShankharDev Campus

Respondent (Bankers/ Customers)

Name:

Designation:

Occupation:

Office/ Organization:

Please tick () the correct answer. (Tick one or more, if applicable)

1. Did you have knowledge about retail banking?

a. Yes

b. No

2. How did you get idea/Information to get benefit from banking about retail banking?

a. From Friends and Relatives

b. From media advertisement

c. From staff of bank.

3. In which sector did you think public have get more benefit in retail banking?

- a. Loan Sector b. ATM card/ Debit card
c. Other

4. Are you aware about the deposit and lending of commercial bank ?

- a. Very much b. Moderately
c. Little d. Not at all

5. Did you satisfied about the retail banking service on the rural area?

- a. Yes b. No

6. By which special characteristics are you impressed about retail banking?

- a. Providing loan b. ATM service
c. e- Banking service d. ABBS service

7. Do you read prospects of the company before getting service of retail banking?

- a. Yes b. No

8. In which types of do the consumers prescribe?

- a. Home lone b. Education loan
c. Debit card d. Credit card
e. Auto loan

9. Did you think that Retail banking helps to increase in economic activity on the nation?

- a. Yes b. No

10. Retail Banking gives opportunity to the rural areas people to make their purchasing power by providing different types of loan do you agree?

- a. Yes b. No

1	Rabi Thapa	NCC Bank	Bankers
2	MaushamiKhadgi	NIC Asia Bank	Bankers
3	ManoharPaudel	Kist Bank	Bankers
4	Mahon Pokharel		Bankers
5	Navraj Sharma	CYC Co-Operative	Bankers
6	Deepak Gyawali		Bankers
7	BishnuPokharel		Bankers
8	BhawanaPaudel		Bankers
9	MadanAryal		Bankers
10	ShredharAryal		Bankers
11	ManojPaudel	Century Bank	Bankers
12	KhimLalPuri		Bankers
13	BikashKhadka		Bankers
14	Gita Pradhan		Bankers
15	DillirajPokharel		Bankers
16	SapanaGhale		Teacher
17	Naresh Sharma		Student
18	BikashPradhan		Student
19	Sabin Karki		Customer
20	Uma Paudel		Student
21	KiranPaudel		Student
22	Ganesh Panthi		Customer
23	ArjunPaudel		Customer
24	SanjibKarki		Student
25	Suresh Kumar Koirala		Customer
26	PravashDhungana		Customer
27	Rishi Pokharel		Student
28	SanjayaPrajapati		Student
29	RajanKhatri		Student
30	SagarRegmi		Student
31	Ramesh Chandra Adhikari		Student
32	LaxmiSigdel		Student
33	PraladOli		Teacher Korean
34	SirjanaGaire	Apex College	Student
35	Amisha R.		Self Employe

Appendix VI
LIST OF RESPONDENT