

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked country in South East Asia. It is located in the Himalayas and bordered to the north by China and to the south, east, and west by India. An isolated, agricultural society until the mid-20th century, Nepal entered the modern era in 1951 without schools, hospitals, roads, telecommunications, electric power, industry, or civil service. After the establishment of democracy in 2007 BS, Nepal applied mixed economic policy which continued even after the political change in 2017 BS. The country has, however, made progress toward sustainable economic growth since the 1950s and is committed to a program of economic liberalization. After the establishment of multiparty political system in 2046 BS, Nepal pursued liberal, open and market oriented economy. Foreign direct investment is promoted in almost all sector/sub-sector of the economy, including the development, operation and management of infrastructure like road, transport and electricity, especially hydroelectricity, of which the country has immense potentiality.

Nepal has used a series of five-year plans in an attempt to make progress in economic development. It completed its ninth economic development plan in 2002; its currency has been made convertible, and 17 state enterprises have been privatized. Foreign aid accounts for more than half of the development budget. Government priorities over the years have been the development of transportation and communication facilities, agriculture, and industry. Since 1975, improved government administration and rural development efforts have been emphasized.

Main Features of Nepalese Economy

1. Mixed economy policy
2. Low rate of capital investment
3. High rate of population growth
4. A poor and agro based economy

5. Landlocked, mountainous and developing nation
6. Rich in water and natural resources
7. Unequal distribution of natural income

Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprise. 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. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Economic growth of the country has not improved substantially overtime to overtake population growth. As the current population growth is 2.25 percent per annum, the gain achieved by development activities has been shadowed by growing population. Little over half (58.2%) of the population are reported usually economically active in 2001. Population Census 2001 reports that 53.1 percent population of age 10 years over is employed and 5.1 percent are unemployed. Contributions of non-agricultural activities are gradually increasing in GDP. The preliminary estimates of per capita GDP and per capita GNI in terms of US dollar are 315 and 322 at a current price respectively. 31 percent of the Nepalese populations are still below the absolute poverty line.

For the development of country, financial institution is considered as the catalyst to economic growth of a country. The concept of financial institution 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 Rastra Bank was established with the objectives of supervising, protecting and directing the function of commercial banking activities. With the growing activities in 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 Rastriya Banijaya 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 were established and continue to establish and are contributing to the economy and banking tradition in Nepal.

At Present, Nepal has many nationalized as well as private banking ventures. The highest authority on the pyramid is The Nepal Rastra Bank. This is the central bank of Nepal that decides and makes various guidelines for the banking sector of the country. The bank with the largest network in Nepal is The Nepal Bank Ltd. It is closely followed by Nepal Banijya Bank. Both of them have branches across Nepal.

Retail Banking has changed 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 service more discerning, demanding and less loyal customers have become the important changed diverse across the globe.

1.2 Concept of Banking

A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses. Banking is generally a highly regulated industry, and government restrictions on financial activities by banks have varied over time and location. In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as the United States banks are prohibited from owning non-financial companies. Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending.

Banking in Nepal is as important as banking in anywhere else in the world. Banking sector is the major institutional system in Nepal which carries out the financial flow within the economy. The importance of banking in Nepal can also be understood with the emergence of e-banking in the recent years. Banking results in the mobilization of money in the economy and also helps the people to invest and store their money and also to give the money to the debtors to precede their businesses and give financial benefits to the economy.

Banks provide almost all payment services, and a bank account is considered indispensable by most businesses, individuals and governments. Non-banks that provide payment services such as remittance companies are not normally considered an adequate substitute for having a bank account. Banking sector is the leading economic activity of the country. In the developing country, most of people are under the poverty line. The Banks should provide good and trustable facility. The Banking system is the very essential part in every business. The Bank plays the vital role in any economics. Every country should make good provision for banking in its national economy.

Concept of wholesale and retail banking:

Banking as a whole can be viewed from two different aspects: wholesale banking and retail banking.

1. Wholesale banking is the provision of services by banks to the like of corporate clients, mid sized companies, real state developers and investors, International trade finance business institutions, institutional customers(such as pension funds and government entities/agencies) and services offered to other banks and other financial institutions. In essence wholesale banking services usually involve high volume transactions. Simply saying, wholesale banking is the type of banking services that occur between merchant banks and other financial institutions. Wholesale banking covers banks lending to larger entities such as corporate and government besides activities for examples, money markets, foreign and finance for trade. The main areas in which wholesale banks concern themselves are: capital raising, project financing, revolving crediting, risk management, term loan providing etc. Wholesale banking deals with larger institutions, where as retail banking would focus more on the individual or smaller business. Some services might include currency conversion, working capital financing and large trade transactions. It is the provision of services by banks to the likes of large corporate clients, mid-sized companies, real estate developers and investors, international trade finance businesses, institutional customers, and services offered to other banks or other financial institutions. In essence, wholesale banking services usually involve high value transactions.

Wholesale Banking Products:

- Capital raising (Equity / Debt / Hybrids)
- Project finance
- Revolving credit
- Risk management (Interest rates, commodities, derivatives)
- Term loan

2. Retail Banking on the other hand implies executing banking transactions with a large number of customers with a relatively low business volume. It is simply providing banking services to individual customers. It is the typical mass market business in which individual customers use local branches of larger commercial banks. Services offered include: saving and checking accounts, mortgages, personal loans, debit cards, credit cards and certificate of deposits.

Investopedia defines retail banking as “Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of retail clients. Some retail banks have even made a push into an investment services such as wealth management, brokerage accounts, private bankers and retirement planning where some of these ancillary services are outsourced to third parties.”

Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of retail clients. Some retail banks have even made a push into investment services such as wealth management, brokerage accounts, private banking and retirement planning. Retail banking can also be defined as: Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. The concept of retail banking has slowly evolved over the years owing to certain important and complex change in the structure of socio-economic environment in the country. Services offered include: savings and transactional accounts, mortgages, personal loans, debit cards, credit cards, and so forth.

Retail Banking Products:

- Business loan
- Personal loan
- Cheque account
- Savings account
- Credit card
- Auto loan
- Home loan
- Debit Card
- Insurance advisor
- Educational Loan
- Mutual fund
- Innovative Banking

History of Retail Banking:

The retail banking dates back to the late 1950s when the North European countries introduced it and then it spread to the other parts of Europe. In Nepal through retail deposit and time deposit were very much a part of banking activities; they were not recognized as retail. A term deposit from the corporate entity and that an individual person would be backed in same set of ledgers obtained from liabilities. It was in the early 2000 that first time retail banking as a distinct business identity was introduced in Nepal through customer business pioneer led by Standard Chartered Bank.

As the environment become original to healthy existence of retail financing and the Nepal's middle class looked for an organized sector as banking to address their needs. Many commercial banks are coming forward setting up "Retail Banking" as a business.

Retail Banking Products:

There are vast numbers of retail banking products in market and they are being transacted daily. All of them have a lot of significance in the field of retail banking and are parts of the whole in the field of banking. So only some of the most important ones and the most popular ones are discussed below.

1. Home Loan

A host of factors, such as number of dual income families, high salaries employees with high purchasing and borrowing powers, phenomenal growth of the information technology sector, attractive tax sops for housing loan, desire to say new house etc., have contributed to the optimism in the housing sector. Investing in housing has always been 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 by leaps and bounds and they form a growing avenue for deployment of funds by banks. Home loan of course, has been the fastest growing loan segment for 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 find mobilized, in their purist of aggressive growth.

2. Auto Loan

Automobile is the key factors of any nation's development. After most of the nation adopted liberalizing 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, there dream has not came to reality. After resurgence of Retail Banking, it is the mostly preferable segment in the retail bankers. It is less risky and mostly preferable segment in the consumer too. Nepalese banking industry is witnessed in the boost in vehicle loan segment. In vehicle loan they are providing loan to consumer car and motorcycle as per requirement of consumers at lower interest and less hurdle as well as low service charge.

3. Personal Loan

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 are now a days 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 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 EMI.

4. Credit Card

Credit Card is the card 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 often beyond their normal means. The emergence of plastic money or credit cards in Nepal has ushered in an era of convenience and security, apart from opening up new vistas of effective demand. A credit cardholders gets, many benefits like free credit period, discounts on travel expenses, quick loan processing and free gifts, Besides, members can get free health insurance and check ups. 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 hand; further growth in transaction depends on the creation of more transactions at the point of sale (Pos) centers.

5. Debit Card

A debit card is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic check, as the funds are withdrawn directly from either bank account or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card. In many countries the use of debit cards has become so widespread that their volume of use has overtaken or entirely replaced the cheque and, in some instances,

cash transactions. Like credit cards, debit cards are used widely for telephone and Internet purchases and, unlike credit cards, the funds are transferred immediately from the bearer's bank account instead of having the bearer pay back the money at a later date. A debit card is basically a better way of carrying cash or a cheque 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 cards allow consumer to spend only what is in consumers' account and purchases should be kept track of just as if consumer are writing a cheque.

Debit cards may also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash and as a check guarantee card. Merchants may also offer cash back facilities to customers, where a customer can withdraw cash along with their purchase.

6. Educational Loan

Education plays 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, educational is getting more and more costly and hence the needs for institutoional 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 to achieve. To ensure their 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 provided an opportunity to pursue education with the financial support on affordable terms and conditions.

7. Innovative Banking

In Retail banking, there is an existence of 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 the customer 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, and bank on campus, anywhere banking, any time banking, ATM, Bill payment, Private Banking, co-branded cards, financial services and different loan. Technology has emerged as a key driver of growth for the innovative banking sector in Nepal.

8. Mortgage loan

A mortgage loan is a loan secured by real property through the use of a mortgage note which evidences the existence of the loan and the incumbencies of that realty through the granting of mortgage which secures the loan. However the word mortgage alone in everyday usage is most often used to mean mortgage loan. Home buyers or builders can often finance a loan either to purchase or secure against the property from financial institution such as Bank either directly or indirectly through intermediaries. Features of mortgage loan such as size of the loan, maturity of the loan, interest rate, method of paying off the loan and other characteristics can vary considerably.

9. Mutual Fund

An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds raise money by selling shares of the fund to the public, much like any other type of company can sell stock in itself to the public. Mutual funds then take the money they receive from the sale of their shares (along with any money made from previous investments) and use it to purchase various investment vehicles, such as stocks, bonds and money market instruments. In return for the money they give to the fund when purchasing shares, shareholders receive an equity position in the fund and, in effect, in each of its underlying securities. For most mutual funds, shareholders are free to sell their shares at any time, although the price of a share in a mutual fund will fluctuate daily, depending upon the performance of the securities held by the fund. Benefits of mutual funds include diversification and professional money management. Mutual funds offer choice, liquidity, and convenience, but charge fees and

often require a minimum investment. A closed-end fund is often incorrectly referred to as a mutual fund, but is actually an investment trust.

1.3 Statement of the Problem

The world of banking and finance has changed dramatically during past few years. When government introduced the liberalization policy many banks, financial institutions and other institutions started to be established rapidly. Nepalese banks are also offering new products and services to achieve their goal. Many large global banks have completely segregated their retail banking function from the investment banking and private banking. Now Nepalese banks have different banking products like consumer banking, personal banking, private banking, retail banking etc. But most of the people, academician and student may not know about the new services and products. Many of them may unaware about Retail banking products.

The concept of retail banking has slowly evolved over the years owing to certain important and complex change in the structure of socio-economic environment in the country. The main among them are increase in no. of working members in families, more disposable income, reduced size of families, higher education, better mobility, a higher expectation in quality of service from industry. So it has become the most important corporate strategy in some of the bank.

These days many commercial banks, development banks and financial institutions are operating their works to assist in the process of economic development in the country. Due to high competition in the financial institutions, the collection of huge amount from public is comparatively lower then fund mobilization and investment practice of collected funds which raised the problems of investment and proper mobilization activities.

The present problems related to the retail banking are:

1. What are the future prospects of retail banking in Nepal?
2. What type of retail banking products are prescribed by consumer?
3. What is the position of Retail Banking of sample commercial banks?

4. Why are the consumers not getting benefit of the retail banking services provided by bank?
5. What problems are faced by commercial banks in providing retail banking service?

1.4 Objectives of the Study

Any study is done with a purpose in the mind. The purpose of the study may vary from financial to knowledge to requirement. In the same way, this thesis is made to fulfill certain objectives some of which are given below:

1. To identify the problems and prospects of retail banking through the analysis of current data available in the market.
2. To find the contribution of the retail banking in the whole banking transactions of the sample banks.
3. To view the existing situation of retail banking in Nepal as represented by the sample banks.
4. To provide useful suggestions for further improvements of the retail sector.

1.5 Significance of the Study

Modern banks prefer varieties of products and services. Competition is increasing day by day. Consequently the banking system is over-huge with liquidity. This has compelled bank for alternative avenues to employ their fund and the concept of different kind of banking products is coming in market. Because of the competition banks are fully focusing to the customers' needs and requirement, therefore they are offering new schemes and services to the customers. It has been very important these days to study of retail banking product in the market. Retail banking is the one of the important means of fund utilization of commercial banks. Further, changing demographics, a rapidly growing middle-class, rising disposable income, changing lifestyle, increasing ability of the people to take credit risk are providing banks with the opportunities to shift their lending orientation to retail financing. For this sake, every individual, banking professional,

academician and students should be aware about retail banking concept and products. This study would be significant for all these segments.

The Significance of the study can be stated as:

1. This study provides valuable information that is necessary for the management of the banks, shareholders, general public and related parties.
2. It will also be beneficial for the government while formulating policy and rules regarding the credit policy.
3. By the helps of this study, general public can know the retail banking activities of the Nepalese commercial banks.
4. The study of retail banking would provide information to the management of the concern banks that would be helpful to take corrective actions in the banks activities.

1.6 Limitation of the Study

For the completion of this study, some facts are considered as the limitations. These are presented as below:

1. This study has been carried out for the partial fulfillment of master's degree, faculty of management of TU. So the time and resources are major limitation for the study.
2. This study is based mainly on secondary data. So its accuracy depends upon the data collection and the data provided by the sample banks.
3. This study mostly concerns about retail banking products offered by different banks.
4. Only three commercial banks among the total of twenty nine have been selected as sample for the study.

1.7 Organization of the study

This study will be divided into five chapters.

Chapter 1 – Introduction:

First Chapter focuses on general background of the study. It deals with major issues to be investigated along with general background of the study, statement of problem, objective of study with organization of the study. This chapter signifies the rationale of this study.

Chapter 2 – Review of Literature:

Second chapter deals with conceptual consideration and review of related literature which provide a framework with the help of which the study has been accomplished. In this chapter major empirical works has also been discussed.

Chapter 3 – Research Methodology:

Third Chapter is devoted to methodological approach employed in this study. This chapter includes research design, nature and sources of data, population and samples, method of analysis and definition of key terms.

Chapter 4 – Data Presentation and Analysis:

The fourth chapter deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner. This chapter also deals with the strengths, weakness, opportunities and challenges faced by the sample banks. The final findings of the study are also included in this chapter.

Chapter 5 – Summary, Conclusion and Recommendation

The fifth chapter consists of summary, conclusion, and recommendation of the study.

CHAPTER II

REVIEW OF LITERATURE

A **literature review** is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Most often associated with academic-oriented literature, such as a thesis, a literature review usually precedes a research proposal and results section. Its ultimate goal is to bring the reader up to date with current literature on a topic and forms the basis for another goal, such as future research that may be needed in the area. A well-structured literature review is characterized by a logical flow of ideas; current and relevant references with consistent, appropriate referencing style; proper use of terminology; and an unbiased and comprehensive view of the previous research on the topic. It is definitely a most important of all the study. It is simply the way to discover what, other researches in this area, have already accomplished to uncover. The critical review of literature helps a researcher to master all the available fact in his field of study. Also, most importantly, it helps a researcher to avoid the useless areas of study which have already been studied fully.

Review of literature is the crucial aspect of the planning of the study and helps the researcher to develop some expertise in his area to see what new contribution can be made by him? What other people have written about the topic? What theories have been advanced? And which approaches are being taken by other researchers about the topic? All these are some of the vital questions that a researcher is confronted with. Thus the review of literature helps the researcher to know the answers of these questions and thus enables him to be acquainted with the results of a lot of other related researches without conducting them himself. In this chapter the focus has been made on the conceptual framework and review of literature of the relevant retail banking aspects of the commercial banks. It is based on the available literature in the field of research so as to find 'what other has done?', 'What other has said' and 'what other has written'. All these

related questions are reviewed which have provided useful inputs in this research work. Every possible effort has been made to grasp the knowledge and information, available from libraries, concerned banks and various websites, fulfilling the requirements and needs of this research.

2.1 Conceptual review

2.1.1 Banking

A **bank** is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses. The word bank was borrowed in Middle English from Middle French *banque*, meaning "bench, counter". Benches were used as desks or exchange counters for the early banking transactions. Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending. Banks provide almost all payment services, and a bank account is considered indispensable by most businesses, individuals and governments. Non-banks that provide payment services such as remittance companies are not normally considered an adequate substitute for having a bank account. Banks borrow most funds from households and non-financial businesses, and lend most funds to households and non-financial businesses, but non-bank lenders provide a significant and in many cases adequate substitute for bank loans, and money market funds, cash management trusts and other non-bank financial institutions in many cases provide an adequate substitute to banks for lending savings too. Banks' activities can be divided into retail banking, dealing directly with individuals and small businesses; business banking, providing services to mid-market business; corporate banking, directed at large business entities; private banking, providing wealth management services to high net worth individuals and families; and investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations. The main function performed by

bank is to engage in the business of keeping money for savings and checking accounts or for exchange or for issuing loans and credit etc. the term, transacting business with a bank generally means depositing or withdrawing funds or requesting a loan etc. The functions of bank in general terms, the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit.

Simply stating, Bank is the financial intermediary accepting deposits and granting loans. It offers the widest menu of products. In fact a modern bank provides such a variety of functions that makes difficult to give well acceptable and general definition of banks. It will be very worthy to refer various definition of bank given by the scholars and experts.

***Commercial bank act-2031** defines banks as, a Commercial bank is a bank which deals in exchanging currency accepting deposits, giving loans, and doing commercial transactions.*

***John Paget states** "No body can be a banker who does no (i) take deposit account,(ii)take current accounts (iii)issue and pay cherubs , and(iv)collects cherubs crossed and n crossed for its customers."*

***Kent** "A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."*

***Investorwords.com** "An organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks."*

***According to the US Law** " By banking we mean the business of dealing in credits and by a 'bank' we include every person, him or company having a place of business where credit are opened by the deposit or collect of money or currency .Subject to be paid or*

remitted on draft, cheque or order, or money is advanced or Located on stocks, bonds, bills of exchange, or promissory notes are required for discount or sale”

Also, in his book, C.R. Crowther have stated that "A bank collects money from those have it to spare or who are saving it out of their incomes and it lends this money to those who require it."

On the basis of these various definitions it can be concluded that a bank may be defined as a financial institution which involves in accepting deposits, advancing loans, as well as buying and selling several financial services. A modern bank can not be limited to borrowing and lending activities only, rather it involves in the business of very wide range of financial services including various agency functions as well as general utility functions.[Source: Thapa and Rawal, Principles and practices of Nepalese Banking,2009]

2.1.2 Basic principles of banking

The meaning and the definition of the word 'banking' varies across the world. The American banking system is different from British and the Nepalese Banking system. Yet, certain basic trends of banking are common all over the world. These trends or principles are so fundamental that they apply to almost all the Banking systems globally .Those basic principles of Banking are as follows:

a. Principal of Intermediation:

Intermediation involves the "matching" of lenders with savings to borrowers who need money by an agent or third party, such as a bank. If this matching is successful, the lender obtains a positive rate of return, the borrower receives a return for risk taking and entrepreneurship and the banker receives a return for making the successful match. Banks are called Financial Intermediaries because they invest or lend Funds of depositors who themselves are unable to lend their Funds due to risk and other Factors involved in direct Lending. Banks assume the credit risk (non payment by borrower) involved in direct lending to those who need Funds (borrowers). They have expertise and abilities to manage such risks. The Bank mediates between depositors savers of money and borrowers (user of money).

b. Principle of Liquidity:

Liquidity, in general terms is an asset's ability to be sold without causing a significant movement in the price and with minimum loss of value. Money, or cash in hand, is the most liquid asset, and can be used immediately to perform economic actions like buying, selling, or paying debt, meeting immediate wants and needs. Banks involve in the simultaneous operations of accepting deposit which are repayable on demand (or on certain maturity period) and lending these funds to the borrowers in such a manner that the bank would be able to arrange for the funds demanded by depositors at any point of time. To meet this requirement or obligation, the bank must keep certain portion of its deposit liabilities in liquid form so as to be able to repay the same on demand of the depositors. This principle is reinforced by the regulatory authority of all countries as a compulsory requirement.

c. Principle of profitability:

Ability of a firm to generate net income on a consistent basis is generally understood to be its profitability. Banking business like any other business has to be profitable in order to sustain required growth. Interest income is the main source of profit for a bank. To obtain a profit, the interest earned by a bank on its lending operations should be higher than the interest paid by a bank on its deposit operations.

d. Principle of solvency:

Solvency, in finance or business, is the degree to which the current assets of an individual or entity exceed the current liabilities of that individual or entity. Solvency can also be described as the ability of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth. Solvency of a bank means the long term financial soundness of the bank, achieved by adherence to prudent policies in lending, retention of some parts of profits for business growth, implementation of professional management systems and following the mandatory rules and procedures in day to day operations. Bank's financial soundness is judged by analyzing its historical performances (capital adequacy, asset quality and performing assets).

e. Principle of trust:

The trust among all the stakeholders is the most necessary component for the success of any bank. Trustworthiness is a bank's good track record over a fairly long period of time, in terms of liquidity, profitability, financial soundness and its records of meeting its commitments to all the concerned parties. It also refers governance quality of the bank. For customer and the public, trust indicates dependence and safety as they perceive while lodging their deposits with a bank and it is reflected in the rate of growth of its deposits and profit on a sustained basis.

2.1.3 History of Banking in Nepal

The first banks were probably the religious temples of the ancient world, and were probably established in the third millennium BC. Banks probably predated the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and palaces were the safest places to store gold as they were constantly attended and well built. As sacred places, temples presented an extra deterrent to would-be thieves. There are extant records of loans from the 2nd century BC in Babylon that were made by temple priests/monks to merchants. The importance of banking in Nepal can also be understood with the emergence of e-banking in the recent years. Banking results in the mobilization of money in the economy and also helps the people to invest and store their money and also to give the money to the debtors to precede their businesses and give financial benefits to the economy.

In the east, it is believed that banking was practiced at the time of "Manu" as it is referred in Manusmiriti. There is an opinion that it was practiced during Chanakya's too, as banking has been mentioned in "Kautilya's Arthashastra" which is the first book in Economics. Similarly, in the West, history of Banking begins in ancient Greece, Rome and Mesopotamia. The Lombards, who were originally from the plains of Lombardy of Northern Italy, introduced banking practice to England. These Lombards brought this business to the city of London and their home, the Lombard Street, is still the center of

British Banking. The Lombards, after a century or so of business in London were eventually bankrupted because they lent money to kings who did not repay them.

Banking in the modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Venice and Genoa. The Bank of Venice established in 1157A.D and the Medici bank, set up by Giovanni Medici in 1397 is perhaps the most famous Italian banks of the early period. Similarly, Bank of Barcelona established in 1401A.D, Bank of Geona established in 1407A.D and Bank of England, which was established in 1694 were the other pioneers in banking. There was also a hierarchical order among professionals; at the top were the bankers who did business with heads of state, next were the city exchanges, and at the bottom were the pawn shops or Lombard's. Some European cities today have a Lombard street where the pawn shop was located. Banking offices were usually located near centers of trade, and in the late 17th century, the largest centers for commerce were the ports of Amsterdam, London, and Hamburg. From the initiation of banking business, today almost all the countries are running their separate Central Banks and thousands of commercial banks to serve the people through banking activities.

In the context of Nepal, it is assumed that the regular history of Coinage in Nepal began from the fifth century. In the year,879/80 A.D, a low cast merchant, named "Sankhadar Shaukhwa" introduced the new era after paying all the debts that existed in the country. The advent of 12th century marked a new period in economic history in Nepal. Silver Coinage was introduced in this period, which widened the scope for trade. The second major logical order of development was found in the innovation of interest bearing private debt such as bonds mortgages and loans. The term 'Tanka dhari', meaning moneylender was used at the end of 14th century. 'Tanka dhari ' was one of the 64 casts classified on the basis of occupation, indicating money changing was adopted as a profession by a sector of people in Nepal at that time. For many years, the indigenious individuals' wealthy agriculturalists, landlords, merchants, and traders conducted banking activities as a side business to their normal business activities. Under the prime minister ship of Chandra Samsher, this Adda extended its services outside Kathmandu valley. Legal provision was made to prevent the practice of capitalization of interest on loan

extended by private dealers. Hence, the establishment of Tejarath Adda provided the foundation of modern banking in Nepal. However, 'Kaushi Tosh Khana' established during the regime of King Prithibi Narayan Shah is also considered as the first step towards initializing banking development in Nepal. Tejarath Adda extended credit only; it did not accept deposit from the public which later on caused the financial crisis making it impossible to meet the credit need of the general peoples of the country.

Prior to the establishment of Nepal Bank Limited, peoples relied on borrowings from the corrupted money lenders, who charged very high interest rates and added other dues. These moneylenders extended loans on the collateral of land, house and precious metals like gold and silver. With the co-operation of Imperial Bank of India, Nepal Bank Limited came into existence under the Nepal Bank Act 1937. Since there was not the existence of central bank, this bank played the dual role of commercial bank and central bank which was continued until the establishment of Nepal Rastra Bank on 26th April, 1956. NBL was a semi government bank. So, it was unwilling to go to many sectors where the government felt the need of providing banking services. Hence, Rastriya Banijya Bank, a fully government owned bank was established on 23rd January 1966.

The initiation of formal banking system in Nepal commenced with the establishment in 1937 of Nepal Bank Limited (NBL), the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) was established in 1956 by Act of 1955, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of His Majesty's Government of Nepal (HMG/N) was established. Thereafter, the government adopted open and liberalized policies in the mid 1980s reflected by the structural adjustment process, which included privatization, tariff adjustments, liberalization of industrial licensing, easing of terms of foreign investment and more liberal trade and foreign exchange regime was initiated. With the adoption of liberalization policy, there has been rapid development of the domestic financial system both in terms of number of financial institutions and as ratio of financial assets to the GDP. In the context of banking development, the decade of 1980s saw a major structural change in financial sector policies, regulations and institutional developments.

Nepal Government emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management (Acharya et al, 2003). These policies opened the doors for foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd) in 1984. The numbers of commercial bank operating in the country are increasing everyday and many more are in the pipeline to commence their business. Before 1985, only public enterprises such as two Development Banks: NIDC and ADB, and in the form of non banking financial institutions: Employee provident fund and National Insurance corporation were established. Eventually to increase the financial activities within the country, Finance Company Act- 1985 was introduced which promoted people to establish financial institution in the country. Today, there are 26 commercial banks, 74 development banks, 221 Finance companies and thousands of co operative organizations providing financial services in Nepal. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time.

2.1.4 Functions of Bank

In today's dynamic economic world, banks can perform a lot of functions varying mainly according to their types. The most important functions of bank are listed below:

Today Banking involves following products and services.

- The borrowing, raising or taking up of money,
- The lending or advancing of money either with or without security,
- The drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange hundis, promissory notes, coupons, drafts, bill of lading, warrens, debentures, certificates, scripts and other instruments and securities whether transferable or negotiable or not.

- The granting and issuing of letter of credit, travelers' cheques and circulars notes,
- The buying and selling of foreign exchange including bank notes.
- The acquiring, holding, issuing or commission, underwriting and dealing in stocks, funds, shares, debentures, bonds, obligations, securities and investment of all kinds.
- The purchasing and selling of bonds, scripts or other forms of securities on behalf of constituents or other, the negotiating of loans and advance;
- The providing of safe deposit vaults;
- The collecting and transmitting of money and securities;
- Carrying on and transacting every kind of guarantee and indemnity business;
- Managing, selling and realizing any property which may form the security or part of the security for any loans or advances or which may be connected with any such security;
- Acting as agents for government or local authority or any other person or persons

2.1.5 Types of Banking

Banks' activities can be divided into retail banking, business banking, branch banking, group banking, unit banking, mixed banking, chain banking, private banking, investment banking, and many others. The types of the banks vary according to the services provided by them in different fields of business. Among all these types, the most important types of banking services are briefly described in the following paragraphs:

i. Branch Banking:

Branch banking is engaging in banking activities such as accepting deposits or making loans at facilities away from a bank's home office. Branch banking has gone through significant changes since the 1980s in response to a more competitive nationwide financial services market. Financial innovation such as internet banking will greatly influence the future of branch banking by potentially reducing the need to maintain extensive branch networks to service consumers. It is a multi-office banking, generally defined as accepting deposits or making loans at facilities away from a bank's home office. Branch banking has gone through significant changes since early 1990s as banks

respond to a more competitive nationwide. A branch banking center or financial center is a retail location where a bank offers a wide array of face-to-face and automated services to its customers.

ii. Unit Banking:

Unit banking is the banking system in several states that prohibits branching, or operation of more than one full-service banking office. Unit Banking refers to the system where the operations of the banks are confined generally to a single office the theory behind this banking is that each bank should be a local institution, locally financed and managed, growing funds from depositions and using resources to develop local enterprises. USA is a typical country which follows the unit banking system. It is the situation in which a state bank tends to have only one branch, operating under the umbrella of the Federal Reserve System. This is the system in the USA, while in the UK banks tend to operate a branch banking system with a few national banks, each with very many branches.

iii. Group Banking:

A plan offered by banks that generally provides incentives for groups, such as employees at a company, if the group establishes a banking relationship with the institution is called group banking. Potential incentives for group banking can include lower interest rates, lower fees and discounts. The form of holding company in which a management group has control of several exiting banks is called group banking. Each bank in the group has its own BOD, but the holding company co-ordinates the activities of all the banks in a group. Some other benefits of group-banking plans include a single point of contact for the group, and a bank contact which is generally more knowledgeable with the group's plan and needs. Also, many banks may offer group seminars.

iv. Mixed Banking:

The form of banking which tends to undertake both commercial and industrial banking activities is mixed banking. Its Feature is to attract deposits and raise capital and loans from the public and make them available to investors for both short and long Periods. These banks serve double purpose of helping the public with their savings and on the

other hand, helping the entrepreneurs in raising the required capital. The traditional view of banking was that commercial banks should strictly confine themselves to short term lending and maintain a high degree of liquidity as they are traders in other's deposits. But banks in some European countries actively lend to industries for long term and subscribe to share capital of new companies. Such banks in Germany are known as universal bank or mixed banks as they combine commercial banking with industrial finance.

v. Chain banking:

Chain banking is the conceptual form of bank governance that occurs when a small group of people control at least three banks that are independently chartered. Usually, the controlling parties are majority shareholders or the heads of interlocking directorates. Chain banking as an entity has declined with the surge in interstate banking. It means that the control of three or more independently chartered banks by a few individuals, usually through stock ownership or interlocking directorate's .chain banking differs from branch banking or multi office banking within a single institution and group banking by affiliate banks within a bank holding company. Its importance in the banking system has declined since the late 1980s.

vi. Retail banking:

Retail banking refers to the dealing of commercial banks with individual costumers, both on liabilities and assets side of the customers. Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of retail clients. Some retail banks have even made a push into investment services such as wealth management, brokerage accounts, private banking and retirement planning. Retail banking can also be defined as: Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. Services offered include: savings and transactional accounts, mortgages, personal loans, debit cards, credit cards, and so forth. While some of these ancillary services are outsourced to third parties (often for regulatory reasons), they often intertwine with core retail banking accounts like checking and savings to allow for easier transfers and maintenance. Retail banking specifically deals with business loan, cheque account, credit card, home loan, insurance

advising, mutual fund, personal loans, saving accounts etc. Since this research is concentrated on retail banking. It will be discussed in the later chapters too.

vii. Wholesale banking:

Simply saying, wholesale banking is the type of banking services that occur between merchant banks and other financial institutions. Wholesale banking covers banks lending to larger entities such as corporate and government besides activities for examples, money markets, foreign and finance for trade. The main areas in which wholesale banks concern themselves are: capital raising, project financing, revolving crediting, risk management, term loan providing etc. Wholesale banking deals with larger institutions, where as retail banking would focus more on the individual or smaller business. Some services might include currency conversion, working capital financing and large trade transactions. It is the provision of services by banks to the likes of large corporate clients, mid-sized companies, real estate developers and investors, international trade finance businesses, institutional customers, and services offered to other banks or other financial institutions. In essence, wholesale banking services usually involve high value transactions.

viii. Relationship banking:

Relationship banking is a strategy used by banks to enhance their profitability. They accomplish this by cross-selling financial products and services to strengthen their relationships with customers and increase customer loyalty. Relationship banking involves offering customers a broad array of financial products and services that go beyond simple checking and savings accounts. Relationship banking is an attempt to advance the sales culture in bank marketing beyond order taking to a more proactive form of direct selling .instead of selling financial services one at a time, an account officer attempts to gain an understanding of the consumer's needs and offer services that fulfill those needs. Commercial banks and other financial institutions hare attempted to apply the concept of relationship banking though personal banker and private banking programmers.

Except these types of Banking, other types of banking like correspondent banking, social banking, virtual banking, rural banking etc. are also in practice in the recent days.

2.1.6 Bank Lending: Policies and Procedures

A. Loans:

A loan is a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. Loans can come from individuals, corporations, financial institutions and governments. They are a way to grow the overall money supply in an economy as well as open up competition, introduce new products and expand business operations. Loans are a primary source of revenue for many financial institutions such as banks, as well as some retailers through the use of credit facilities. Loan is also the sum lent to others for certain time period with the agreement to charge interest on principal. The interest is charged certain percentage on principal. When the money belonging to one is advanced to another to be used for certain time period, it is called loan. The basic objective of loan advancement is to earn interest as the reward for lending the sum for specific period. Commercial banks are the organized institutions providing loan for the needed. Loan advancements account for more than half of the bank's total assets and about two third of their revenues. Most of the risk on banking tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problem is usually found to have sprung from loans.

B. Types of loan made by banks

Loans are the major income sources for banks. Banks make a wide variety of loans to the wide variety of customers for many different purposes. For customers, the cause of loan purchasing may be investment in business, purchasing automobiles, taking dream vacations, pursuing college education, constructing home and office buildings etc. The type of loan may vary according to the basis upon which it is categorized. Different types

of loan may be Open-Ended and Closed-Ended Loans, Secured and Unsecured Loans, Conventional Loans etc. It is very harder to state exact classification of loans; however loans can be classified based on following two circumstances:

i. Classification based on the nature of loans:

Loans differ according to their basic nature, however in all types of loans the interest will be charged only on the outstanding closing balance of the day. On the basis of its nature loan can be classified into following types:

- a.** Overdraft loan: The loan in which a limit is assigned on the current account of the customer up to which the customer can overdraw his account.
- b.** Clean advances: Clean advances are unsecured loans granted for a short period after taking into account the net liquid resources of the borrower.
- c.** Demand loan: Demand loan is a working capital loan provided for not more than a year. It is a revolving type of loan, which once settled is reinstated by the settled amount.
- d.** Term loan: Term loan is the type of loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate. Term loans almost always mature between one and 10 years. Bankers lend some portion of their fund for fairly long period of time to industries and agriculture against the security of fixed assets. For example many banks have term-loan programs that can offer small businesses the cash they need to operate from month to month. Often a small business will use the cash from a term loan to purchase fixed assets such as equipment used in its production process.
- e.** Bridge loans: Sometimes, when the lending institution fails to disburse the loan already sanctioned either for want of completion of documentation formalities or for want of resources, a commercial bank is requested to extend loans for a temporary period as a stop gap arrangements which is known as "Bridge loan"
- f.** Participation loans or Consortium loans: When the borrower's demand of advance is somewhat larger and two or more banks agree to advance jointly in certain

agreed proportion against the common security, it is called participation loans or consortium loan.

- g.** Hire Purchase loan: In case of hire purchase loan, the article belongs to the owner (bank) and is given on hire to the customer. The borrower will pay the owner, the hired money agreed between them by installments normally on EMI i.e. equal monthly installment basis over a period of time.
- h.** Time loan: Time loan is also a working capital loan, given for a period of less than one year and has a fixed maturity date.
- i.** Trust receipt loans: Trust receipt loan is provided to importers against import LC established by the banks to make payment for the goods arrived through LC.
- j.** Pre shipment and post shipment loans: These are the time loans provided to the exporters to manufacture goods for export and finally to export overseas against the security of an export LC.
- k.** Mortgage loan: Loans extended against the strength of fixed assets (mortgaged properties) like land and building is known as mortgage loans. It is the loan given or taken to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan. The mortgagor's lien on the property expires when the mortgage is paid off in full.
- l.** Bills purchase: When the proceeds of drafts or cheque drawn on some other banks are paid immediately, the instrument is said to be purchased. Bills purchase facility is given only to credit worthy customers.

ii. Classification based on Sector wise Loan Distribution:

In many countries including USA, loans are classified into six types based on their Uniform Bank Performance Report (UBPR). These loans are as follows;

- a.** Real Estate Loans: A domestic loan secured by real estate is considered as real estate loan. Generally real estate loans are classified into seven sub categories: construction and development loans, multifamily residential real estate, home equity and others.
- b.** Commercial or industrial loans: Commercial or industrial loans are extended to finance the business of the borrower. It can be for financing the working capital need, purchase of fixed assets and various other seasonal and miscellaneous requirements. The financing can be for short term or long term needs.
- c.** Individual or Consumer loans: Consumer loans are extended to individual borrowers. The average size of consumer loan is relatively small. The maturities of such loans are one to four years. These loans are provided to finance durable goods in hire purchase like car, freeze, washing machine etc. of individual users. The individual borrower's default risk is high compared to commercial loans. Consumer loans are considered risky because the goods financed through consumer lending can not be sold in the face value and neither there exists a secondary market for such goods.
- d.** Agricultural loans: Agriculture loans are provided to finance the planting and harvesting of crops. Such loans are quite similar to commercial and industrial loans because loan is provided to finance the short term seasonal credit needs of the customers. The loan is utilized in purchase of seeds, pesticides, fertilizers, wages to farm workers and various other production costs. The loan is repaid when other crops are harvested and sold.
- e.** Loans and Leases in Domestic offices: Lease financing is one of the most important single sources of funds to support business expenditures for capital investments. The regular fixed rental fee is paid on monthly, quarterly, half yearly or yearly basis

as per the agreement between lesser and lessee. Lease financing means letting or renting a building, a piece of and, or equipments for a fixed periods against which the lessee pays a lease rental fee for that period.

C. Bank Lending: Policies and Procedures

The different aspects of bank lending, mainly the policies governing it and the required procedure are given in detail in the following paragraphs:

a. General principles of Lending (characteristics of sound lending policies):

Providing credit is probably the first and foremost revenue generating activity of commercial banks. One of the most important and basic function of commercial banks is to provide credit. Out of their total income, on an average 60-70% income consists from lending activities. Such income based on lending is known as exposure based income because banks are exposed to default risk. In order to mitigate default risk, it would be wise to follow the principle of good lending. The widely used principles of sound lending policies are as follows:

i. Safety:

When lending is done, a banker must ensure that the advance made is safe. This means the money will definitely come back. It demands that loan should be granted only to the reliable borrowers. It must be ensured that the reputation of the borrower is impeccable in the business community. The integrity of the borrower must be undoubted, particularly when the security is inadequate to clear the advance. If the borrower is dishonest person, he might divert the borrowed fund to some other purpose other than initially projected to the bank. Hence, the banker must ensure that the advance made is not only in the safe hands but also remaining so, throughout the period of lending and is repaid with interest when it is due. Thus safety is the foremost condition of a sound lending policy.

ii. Liquidity:

When a banker demands his money back, the borrower must be in a position to repay within a reasonable time period. This is possible if the borrower has invested in short term requirement and not on the purchase of fixed assets or the long term assets. Banks

often make tuning of their deposit with their lending such as long term deposit with short term lending. The major portion of bank's deposit are payable on demand or at short notice. Therefore bankers attach great important to liquidity as it helps them to ensure the repayment of their loan.

iii. Purpose:

Bankers allow loans and advances to the customers only for productive purposes and not for hoarding or for speculative activities. If the client is involved in speculative activities, the banker must avoid such customers as he may drag the bank down along with him, at the time of his own downfalls. The funds should be utilized for increasing production turnover or for starting new business ventures only, which generates employment. The business of the borrower should be a legal one and in consonance with the government policies.

Normally banks do not entertain advances for marriages, personal expenses, and pleasure tours or for settlement of some old outstanding loans, as these are purposes of unproductive nature. However, Banks in Nepal have started to invest money for pleasure tours to service holders or who have small but regular nature.

iv. Profitability:

Profitability is a very important element, which influences the banking activities. Commercial banks are established like any other commercial institutions for the sake of making profit. Without profit, no one can expect banks to make payment of interest on deposits maintained by them. Banks incur large administrative expenses in the course of maintaining service efficiency and attractive premises. Default risk is always high in banking business as banks deal with loans and advances. Loan loss provisioning is maintained according to the classification of loans. Banks also have to make provisions for depreciation of fixed assets. Profit alone ensures all such expenses. However, bankers must not only look from the angle of profitability while appraising a credit proposal, other ancillary business may be lying ahead which can prove lucrative.

v. Spread:

Another equally important principle of lending is to spread the advances in various sectors, many firms and industries and against different securities. It would be appropriate to quote the saying "Do not put all your eggs in one basket". A successful banker is the person who can assess such risks and spreads the lending over a large number of borrowers, different industries and areas and against different types of securities. If lending is made only against one type of security and if that type of security depreciates steeply, he will run a great risk of losing the advance. If a single bank has many branches across the country, in some places they might lend on sugarcane and in some other places they might lend against the stock of rice or jute. This way, when one type of security devaluates, the other might remain the same, which will keep the major portion of exposure safe.

vi. Security:

A prudent banker will always endeavor to obtain maximum security available from the borrower. There should usually be sufficient margin to provide against fluctuation in value. The customer should be asked to provide everything available and acceptable to the bank so that he may not borrow against those securities from other sources. No compromise should be made in obtaining maximum securities from the clients. At the time of distress situation also, the securities must be sufficient enough to cover the bank loan. At all times, bank must be in a safe position to realize its lending.

vii. National interest, suitability:

Bankers must ascertain on which type of business the customer is involved. Whether the firm is acting responsibly towards the society that it is opening in like brick industry or cement industry and the precautions taken by it against environment pollution. Central banks issues directives, prohibiting banks to invest in various sectors such as the import of arms and ammunitions etc. Also bankers must remain vigilant of the law and order situation where the borrower carries its business.

2.2 Retail Banking

Retail banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. Services offered include: savings and transactional accounts, mortgages, personal loans, debit cards, credit cards, and so forth. Retail banking can also be easily understood as the typical mass-market banking in which individual customers use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and certificates of deposit. Retail Banking refers to Banking in which banks undergo transactions directly with customers rather than with corporations or other Banks. Services offered include saving and checking accounts, personal loans, debit cards and credit cards etc.

Retail banks have traditionally provided intermediation and payments services to individuals and small businesses with all the components of those services supplied by the bank. However it is becoming increasingly difficult to identify the nature of a retail bank. Firstly because many banks now combine both retail and wholesale activities. Secondly because technological developments have enabled banks to supply a wide range of retail financial services to its customers but not supply all the sub-components of those services.

Retail banking is becoming an increasingly complex concept to define. While "pure" retail banking is generally concerned with providing mass market banking services to private individuals. It has been expanded over the years to include many cases services provided to small and medium sized business some banks may also include their "private banking" business in their definition o retail banking.

Retail banking refers to offering financial services, products related to loans and consumer preferable services to individual customers for personal consumption. Retail banking includes compressive range of financial products including deposit products, residential mortgage loan. Credits cards, auto finance personal loan, consumer curable loans, loan against equity shares, loan for initial public offer (IPO) debit cards, bill payment services, mutual funds, investment advisory services, mobile banking, internet

banking, debit cards, ATM, professional loans, private banking etc which provide an opportunity for banks to diversify the asset portfolio with high profitability and relatively low NPAs (Rajshekhara and Murthy, 2002:23)

Retail banks provide various products and services to individuals and small businesses. Traditionally a retail bank provided: intermediation services and payments services. Increasingly retail banks are providing a much wider range of products/services including insurance products, pension schemes, stock broking services etc. In short, retail banks are becoming financial supermarkets.

2.2.1 Present Status of Retail Banking in Nepal

As mentioned in the previous section, there are 29 commercial banks presently in operation in Nepal. Among these banks, some are established under joint venture with foreign banks while some are fully domestic bank. Out of total commercial banks, 6 commercial banks are with foreign joint venture and the remaining are fully domestic banks. The Banking system is the very essential part in every business and in today's world of fierce competition the importance of retail banks are more pronounced than ever. The Bank plays the vital role in any economics. Banking is now an essential part of our economic system. Modern trade and commerce would almost be impossible without the availability of suitable banking services. First of all, banking promotes savings. All manner of people, from the ordinary laborers and workers to the rich land owners and businessmen, can keep their money safely in banks and saving centers. Secondly, banking promotes investments. Banks easily invest the money they get in industry, agriculture and trade. They either invest it directly or advance loans to other investors.

The current regulation of NRB regarding the capital structure for the banks prescribes that all the new commercial banks to be established in Kathmandu at national level should have minimum paid up capital Rs. 1 billion; the existing banks in operation are required to enhance the capital level to Rs. 1 billion by the end of FY 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. In the mean time, there are separate provisions on capital requirements for the national level banks to be operated outside the Kathmandu. Banks to be established out side the Kathmandu valley are required to have a minimum paid up

capital of Rs. 250 million. The total paid up capital of 17 banks as at July 2005 has reached at Rs 9.423million. The paid up capital of commercial banks operating in Nepal is on an average of Rs. 554 million. In the view of this regulation of NRB, the retail banking business is certainly more thriving than ever.

In Nepal Retail Banking has always been prevalent in various form over since banking was first established here. organized Bank that have been existing in Nepal for over a half country have always had retail trust .It is only since late 90s and early 2000s that the term "Retail banking" has been used as a means of re-enforcing a conscious foray into this particular Line of business. Retail banking today, for many banks is synonymous with main stream banking, with vast sums of money being invested in creating and sustaining a retail brand further supported by requisite technological and staffing support.

Nepalese banking industry has been suffering an intense competition because of entry of new banks and many financial institutions. 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. Banks were enjoying a lot of business because of expansion in the economy. Although the country was suffering from home war the position of the commercial banks was not effected by it to a large extent. Banks are now trying to reduce their risks by diversifying their portfolio and having a thrust on short –term retail earnings rather than blocking funds in riskier medium and long-term loans. Some banks also developed consumers finance and housing finances product which were no the favored subject matter for them. They were keen to finance industrial and trading activities. However, with slowdown in the economic activities in the recent past, banks became selective in their lending operations as lending to industrial and trading activities as working capital and term loan requirements. Because of uncertainty in the economic environment many banks fail to attract rich middle class people & the people having fixed source of income & increase lending business, in the present competitive banking environment.

Retail banking was viewed primarily as a cost centre and source of low cost deposit. 'But, these days, retail banking represent a major source of competitive strength for the banking industry, as it is a point of direct customers contact. Retail 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 to retail lending as a possible avenue to augment business in the current context. Consumer financing appears to be a viable alternative to cope poor credit off takes.

The economic slowdown and poor industrial growth have reduced demand for loans and there is 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 very 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 threat of NPAs, the fact also remains that there are too many bank chasing too few corporate 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 (*Sigdel, 2005*).

The major causes of shift towards retail banking by Nepali banks are:

- Increasing uses of credit /debit cards as plastic money.
- Fear of corporate defaults and NPA computation.
- Low credit off take from commercial and corporate during the period 2000-2003.
- The internal political crisis and internal war between Maoists and government.
- Relative safety implied by mortgage loans.
- Advisory services: real state, investments and insurance.
- Lowering in the cost of consumer durables, luxurious goods and auto mobiles since Last 7/8 years.
- Automation of stock exchange operations, dematerialization.
- Conversion Factors like Aims, direct debit and call facilities (phone Banking).

Differentiated products are an effective method of gaining competitive advantage. Customer service is one of the most important dimensions of 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 bank should improve the rapport between the controlling office and the branches to ensure that decisions are communicated fast so that processing is faster.

In retail banking one of the major problems faced by the banks is the queue problem. The size of queuing will differ from hour to hour and day to day. To overcome such an obstacle, banks must ensure that adequate staff is available to man all the branches. The major problems faced by Nepalese bankers in providing retail banking services are as follows:

- Problems of managing large number of clients, since IT systems are not sufficiently robust.
- Rapid evolution of products which seem to lead IT complications.
- The costs of maintaining branch networks and handling large number of low value transactions that tends to be relatively high.
- Political instability is showing large impact on the national economy of financial institutions
- Rising liquidity problems in Banks and financial institutions.

Consumer financing encompasses extension of loans for consumer 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 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, 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.

In sum, Retail banking today is having a great presence on Nepalese banks. If the bankers will be able to come some of its drawbacks, there is no doubt that it will have a great impact in the future days too.

2.2.2 Advantages of Retail Banking

The main advantages of retail banking franchise are as follows:

- Retail Banking clients are generally loyal and do not tend to change from one bank to another very often.
- Interest spreads are wide since customers are too fragmented to bargain effectively.
- Credit risk tends to be well diversified and loan amounts are relatively small.
- There is less volatility of demand and credit cycle than from large corporations.
- Stable and constant deposits helps bank to generate revenue and profitability. Retail banking covers vast area and large customers. This helps to generate stable and constant core deposits.
- In corporate banking, corporate entities have tied up with bureaucrats to politician. So, they can influence banks and bargain for their betterment. But in retail banking small and medium level consumer haven't access to these bureaucrats and politician. That why, there is less bargaining.
- Cost of fund tends to be low for the banks because of the less bargaining capacity of retail customers thus ensuring high profit for the retail banks.
- Retail banking uses the customer relationship management technique which helps build customer base.

2.2.3 Disadvantages of Retail Banking

In the same way as the advantages, retail banking also has some of its disadvantages which are listed under as:

- Wider area covered by the retail banking is difficult to manage
- Retail banking tends to increase the expenses of the bank

- Since the retail banking products are already well defined, it does not leave enough space for innovation.
- Competition is also the most important disadvantage of retail banking.

2.3 Review of Articles

Review of articles have been done by the examination and reviewing of some related articles found on different journals, magazines, books and some newspapers.

Rajeshwora N. Singh (2009), in his article "*Retail Banking: A Flourishing Market*" published on "Info Himalayan, vol. 5", has clearly mentioned retail banking from its origin to the present day situation. He states that every person who earns some income has a tendency to save some part of it to meet future contingencies and to uplift the standard of living. As the person moves up the social ladder, his demands for financial needs also increases and becomes sophisticated. This creates the wide prospect to enhance and widen the consumer banking market. In this article, every possible aspects of retail banking along with its pros and cons are well considered. The fact that Retail banking business is a highly profitable part of banking, but was neglected for a long time because of its high operating cost and lack of marketing glamour compared to other banking products is also well depicted in this article. Gradual deregulation in interest rates, Product innovation and development, delicensing of opening branches, entry of private and joint venture banks and so on has given much impetus to retail banking. The article tries to focus on the fact that the increasing trend of middle class people has thrown up bright prospects for retail banking.

The article published on "*The Kathmandu Post*" dated 25th Magh, 2065 entitled "*Shifting focus on Retail banking*" by **L.D. Mahat** has explained clearly that the retail banking industry profile covers the two core retail banking markets, mortgage and personal loans. With slowdown of economic activities in the recent past, banks become selective in their lending operations as lending to industrial and trading activities as working capital and term loan requirement. Because of the uncertainty of economic development, Banks diverted their resources to a new area called retail lending. Retail banking refers to the mobilization of deposits by the banks mainly from individual and lending to small

business in retail loan market. Retail banking consists of large volume of low value transactions. Banks are now trying to reduce the risks by diversifying their portfolio and having a trust on short term retail earnings rather than blocking funds in riskier mediums and long term loans. In the present competitive banking environment, differentiated products are an effective method of gaining competitive advantage. Consumer service is one of the most important dimensions of retail banking. While information technology has contributed to major upheaval in wholesale banking, its impact on retail banking has been relatively limited. But these days retail banking represents a major source of competitive strength for banking industry.

Another an article published in 'Nepali Times' outline, entitled "*The dynamic on consumer banking has crossed the threshold,*" has emphasized that lenders in Nepal are turning more and more towards consumer banking. The prevailing stagnation in investment and competition has forced most banks to look at individuals and tailor products for their needs. Nepali times spoke to Anil Shah, head of consume Banking at standard chartered Bank Nepal, to assess trend. He focused towards consumer banking; he says a bank for an individual has always meant a place to open account and deposit money. Today a bank means much more than that. It is now looked upon as a provider of financial solutions for individuals, which provides producers and services that compliment their life style. And that is what consumer banking is all about it includes home loan, auto loan and personal loan.

2.4 Review of Relevant Acts

In this section, the review of acts framework under which the commercial banks are operating has been discussed. All the commercial banks have to confirm to act provisions specified in the Commercial Bank Act 2031. The preamble of Nepal Bank Act 1994 clearly states the need of commercial banks in Nepal.

As mentioned in this act, commercial bank will help in banking business by opening its branches in the different parts of the country under the direction of NRB. The main function of commercial banks established under this act will be, exchange of money, to accept deposits and loan to commercial and business activities, to mobilize banks

deposits in different sector of the different part of the nation to prevent them from the financial problems. Central bank (NRB) establishes a legal framework by formulating various rules and regulations. These directives must be followed while making decision in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, loan loss provision, capital adequacy relation, interest spread etc. The main provisions, established by NRB in the form of prudential norms are briefly discussed as follows:

Provision for investment in the deprived sector

This provision is made by the government and NRB. Some rules, which are formulated by NRB, affect the areas of credit and investment extension to the deprived sector by the commercial bank. According to the new provision with effect from 16 July 2001, of the total investment by commercial banks, investment in rural development is made compulsory and it should be put as the priority sector lending.

Provision for credit to the priority sector

NRB requires commercial banks to extend loan and advances amounting at least 12% of their total outstanding credit to priority sector. Commercial banks credit to the deprived sector is also a part of priority sector. Credit to agriculture, credit to cottage and small industries, credit to services sector is also be computed as the priority sector credit from the fiscal year 1995/96 on wards.

Provision for the investment in productive sectors

There are various productive sectors of the country. Nepal being a developing country needs to develop infrastructure and other primary productive sector like agriculture, industrial, commerce, etc. For this, NRB has directed commercial banks to extend at least 40% of their total credit to the productive sectors. Loan to priority sector, agriculture sector, and industrial sector has to be included in productive sector investment.

Cash reserve requirement (CRR)

To ensure adequate liquidity in the commercial banks, to meet the depositor's demand for cash at any time and to inject the confidence in depositor's regarding the safety of their deposit funds, commercial banks are required to have maximum CRR. A steady cash

reserve is required in the banks for different reasons such as, transaction, speculative and precaution motives. In this regard, NRB has directed commercial banks to deposit minimum 8% of current and saving and 6% of fixed deposits in the NRB as primary cash reserve. The commercial banks are further required to have 3% cash of total deposits in their own bank as secondary reserve.

2.5 Review of Previous Researches

Researches on the topic of retail banking are very rare in Nepal though retail banking is such a popular and growing field. Many researchers in the master's level thesis are trying to analyze different aspects of commercial banks like liquidity position, interest rates and its impacts, bank lending policies, investment policies, fund management and many more so it is hard to find a similar research topic as this. However, some of the few available related research works by Nepalese researchers are found and reviewed for the completion of this thesis. The extracts of thus found research works are presented as follows:

Shrestha (2007) in his research entitled "*An emerging trend of Banking Products and Services in Nepal*" has explained major retail banking products and services. He states that Retail Banking covers wide area and large no of customers. He finds essential to cover the large geographical areas because retail banking has maximum numbers of products and services which provide different results to different locations. The major objectives and findings of his thesis are as follows:

Objectives:

- To find and analyze the trends of banking products and services, specially retail banking products and services in Nepal
- To analyze, evaluate and compare the retail banking products and services offered by Kumari Bank Limited and Everest Bank Limited
- To analyze the contribution of retail banking products to total volume of the company.

Findings:

- The study indicates that retail banking plays significant role in the economy. Retail banking includes home loan, vehicle loan, deposit, mobile banking and others.
- This study depicts that retail banking covers large no. of customers.
- Retail banking has shifted the scenario from credit rationing to credit marketing.
- Housing segment in the retail banking is the most important segment which covers more than 3% in average to total banking activities.

Auto loan and education sector is the flourishing sector in the retail banking so as professional loan and flexi loan which contributes almost 9.28 and 7.50 percent in retail banking on an average.

Basnet (2008) in his thesis entitled "*Credit management of Rastriya Banijya Bank*" has tried to analyze the credit department of Rastriya Banijya Bank. The major objectives and findings of his thesis were as follows:

Objectives:

- To analyze the performance of Rastriya Banijya bank.
- To analyze the credit and advances period by the banks.
- To analyze the recovery status of the credit disbursed.
- To find out the strength and weakness in credit administration of the bank.
- To give suitable recommendation and suggestions for improvement of present performance conditions and solutions of different problems

Findings:

- During the study period, the bank registered a significant increase in deposits, loans and advances and profitability.
- Net profit of the banks over the study period was observed in decreasing trends.
- The average interest income to loan and advances of the banks is 0.109, seeing the scenario of the commercial bank; it is satisfactory level of income.
- The volume of non performing loans is continuously increasing over the period.

Khatiwada (2008) in his research entitled " *Retail Banking - An Emerging Trend in India* " has summarized that there is no doubt that the market for retail banking will grow steadily in a rapid pace in developing countries like India where the income level of the middle class family is continuously increasing, per capita income is increasing and price level is static. The major objectives and findings of Mr. Khatiwada were:

Objectives:

- To find out the recent scenario of retail banking in India in the current days.
- To analyze the impact of Indian banking practices to other south Asian countries specially Nepal.
- To analyze the contribution of Indian middle class family to the banking as a whole.
- To find out the major retail banking players in India

Findings:

- Retail banking is emerging as the key part of overall banking in India.
- Since there is increasing number of middle class families day by day, retail banking in India is assumed to grow by almost 30% in the next 5 years.
- Reserve bank of India has given continuity to trust retail banking by making the provision that at least 15% of the total loan and advances must be maintained in the consumer loan segment.
- There is a greater impact of banking practices in India to other south Asian countries. [Mr. R.K. Khatiwada, TU thesis, Nepal Commerce Campus(2008)]

Basnet (2009), in his thesis "*An emerging trend of retail banking in Nepal*" has clearly stated the present position in Nepalese retail banking market. The major objectives and findings of his study were as follows:

Objectives:

- To study the existing situation of retail banking in Nepal.
- To analyze the retail banking trend with the SWOT analysis of sample banks.
- To provide the suggestions and recommendations to the concern parties.

Findings:

- There is increasing trend in retail banking sector in Nepal although tedious and lengthy legal procedures are barriers to retail banking practice in Nepal.
- The amount of home loan, Auto loan and personal loan granted by the sample banks is in most increasing trend.
- Due to political instability, the government owned banks are not being able to do well in retail banking in Nepal. But the commercial banks are performing very well in terms of retail banking.

Aryal (2010), in his thesis entitled “*Present Scenario of Retail Banking in Nepal*” has endeavored to find the actual relationship between the retail activities of three commercial banks and their overall banking activities. The main objectives and findings of his study were as follows:

Objectives:

- To analyze the present scenario of retail banking in Nepal.
- To analyze the recent trends on retail banking in Nepal during past few years.
- To identify and analyze the problem and prospects of retail banking through the opinion of stakeholders.
- To provide the recommendations to the concerned parties.

Findings:

- The amount of home loan for all banks under the study is in increasing trend.
- The contribution of home loan in total loan and advance by all banks are in increasing trend.
- The amount of Auto loan for all sample banks under the study is in increasing trend.
- The amount of personal loan for all banks under the study is in increasing trend.
- From the trend analysis, it is found that the amount of Home Loan, Auto Loan and Personal Loan of all the three commercial banks are in the increasing trend.

There are many other related thesis and reports written by different researchers which come beyond the horizon of this study. It is due to the time constraint and the difficulty of finding the accurate matters for the completion of this thesis was also very high. After

reviewing the available researches and dissertations, it is really felt that these studies have been of utmost value in the work of completing this thesis in a most effective manner.

2.6 Research Gap

Retail banking is one of the new topics to the Nepalese researchers. It is very harder to find out the systemic and meaningful research under this topic. Since last few years, some of the Nepalese banks have started Retail banking practice in their organizations. However, they lack efficient research. Most of these researches seem to have sampling bias. Not only this, I found many contradictions between the objectives and the findings in many research.

In the present days, most of the commercial banks are adopting retail banking practices in different names such as consumer banking, personal banking etc. For making their banking practices effectively, some of the banks are maintaining their separate retail banking department and are conducting different kinds of research under this department. However, these researches only are not only sufficient. Researchers could not find any systematic study of retail banking on the pure Nepalese context which is taken as the main research gap. The current study is the supplement to overcome the weakness and limitations of previous studies too. All the Bankers and businessman can find very important result from the current study so that they can develop and follow the new strategies in the future days. The purpose of this study is develop some view in the area to see if new contributions can be made and to receive some ideas, knowledge and suggestions in effective management of retail banking for the bankers whereas for the consumers it is to effectively utilize the retail banking services provided by the banks. Therefore to fulfill this gap this research is selected. To complete this research work many books, journals, articles, and various published and unpublished dissertations are followed as guideline to make the research easier and smooth.

Previous researchers couldn't cover all aspects of retail banking and its impact on overall banking activity and also the relation between inter sectors of banking. So this study is useful to public sectors and all level investors, bankers, students.

Chapter III

RESEARCH METHODOLOGY

Research methodology may be defined as a highly intellectual human activity used in the investigation of nature and matter and deals specifically with the manner in which data is collected, analyzed and interpreted. Methodology may be defined as the description of process, or may be expanded to include a philosophically coherent collection of theories, concepts or ideas as they relate to a particular discipline or field of inquiry. It may refer to nothing more than a simple set of methods or procedures, or it may refer to the rationale and the philosophical assumptions that underlie a particular study relative to the scientific method. Research methodology may also be simply defined as the way to systematically solve the research problem. Research methodology describes the method and process applied in the entire aspect of the study. It may be understood as a science of studying how research is done scientifically. It includes the various steps that are adopted by the researcher to solve the problem along with the logic behind them. Since research methodology of a particular research is totally related to its topic and field, it may be different for other researches and it may even differ with the researches of the same field with similar topic. The selection of the research method is crucial for what conclusions we can make about a phenomenon. It affects what we can say about the cause and factors influencing the phenomenon. It is also important to choose a research method which is within the limits of what the researcher can do. Time, money, feasibility, ethics and availability to measure the phenomenon correctly are examples of issues constraining the research. In this instance research methodology refers to the methods, tools and techniques used to conduct and complete this thesis.

To prepare a suitable methodology for this thesis, some essential questions are self answered. These questions are:

- What is the nature of the problem being investigated?
- Is the problem being investigated subjective or objective?

- Which, among the different types of research methods (Qualitative, Quantitative, mixed, critical or action oriented) would be suitable for the problem being investigated?

3.1 Research design

Research Design is a plan outlining how information is to be gathered for an assessment or evaluation that includes identifying the data gathering method(s), the instruments to be used, how the instruments will be administered, and how the information will be organized and analyzed.

Social research always needs a design or a structure before data collection or analysis can commence. A research design is not just a work plan. A work plan details what has to be done to complete the project but the work plan will flow from the project's research design. The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. Obtaining relevant evidence entails specifying the type of evidence needed to answer the research question, to test a theory, to evaluate a program or to accurately describe some phenomenon. In other words, when designing research we need to ask: given this research question (or theory), what type of evidence is needed to answer the question (or test the theory) in a convincing way?

“Research design deals with a logical problem and not a logistical problem.” (Yin, 1989). Before a builder or architect can develop a work plan or order materials they must first establish the type of building required, its uses and the needs of the occupants. The work plan flows from this. Similarly, in social research the issues of sampling, method of data collection (e.g. questionnaire, observation, document analysis etc.), and design of questions are all subsidiary to the matter of ‘What evidence do I need to collect?’ Too often researchers design questionnaires or begin interviewing far too early, that is, before thinking through what information they require to answer their research questions. Without attending to these research design matters at the beginning, the conclusions drawn will normally be weak and unconvincing and fail to answer the research question.

Research design is essential because it facilitates the smooth sailing of the various research operations. The research design is the plan structure and strategy for investigation of the facts in order to arrive at conclusion. Research design is a plan to obtain the answer of the research question through presentation and analysis of data. It is the blue print of the study. In this research descriptive and analytical search method will be adopted.

3.2 Population and Samples

In the field of research, the largest group under study that includes all individuals meeting the defined characteristics is defined as population. Population consists of large group. Samples are the small fractions designed from this large group. It is difficult to collect data from each individual within the population.

"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). For this study, population consists of all those banks that provide retail banking products and services. Due to constraints, all the banks operating within the country could not be incorporated in this study so the process of sampling is done to complete the research work satisfactorily.

Sampling is an essential part of any research investigation. Except for those studies where the population is too small or is too differentiated so as to obtain a perfect sample which can represent the population in question, almost all the other research studies involve sampling. A defined subset of the population that is chosen based on its ability to provide information, and how representative it is of the population under study, and/or factors related to the feasibility of data gathering such as cost, time, participant accessibility, or other logistical concerns is called sample. The ideal sampling represents the whole universe accurately.

A good sample should be able to represent the population which means that the parameters of the population (mean variance etc.) should be as close to the parameters of the sample. In this study the samples are carefully chosen so that entire banking industry

of Nepal could be represented. For selecting the samples, three consumer friendly banks among 29 listed commercial banks are selected. They are as follows:

1. Nepal Investment Bank Limited
2. Kumari Bank Limited
3. Machhapuchchhre Bank Limited

A little information on each of these banks and their history, fields of operation are given below.

1. Nepal Investment Bank Limited

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 the largest banking group 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 bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office. The shareholding structure of the Nepal Investment Bank Ltd. is given as:

- 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 (which means that NIBL is a Company listed on the Nepal Stock Exchange).

The strategic objectives of the NIBL are said to be:

- To develop a customer oriented service culture with special emphasis on customer care and convenience

- To increase the market share by following a disciplined growth strategy
- To leverage the technology platform and pen scalable systems to achieve cost-effective operations, efficient MIS, improved delivery capability and high service standards
- To develop innovative products and services that attract and market segments
- To continue to develop products and services that reduce the cost of funds
- To maintain a high quality assets portfolio to achieve strong and sustainable returns and to continuously build shareholder's value.

2. Machhapuchchhre Bank Limited

Machhapuchchhre Bank Limited was registered in 1998 as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid up capital of above 1,314 million rupees, it is one of the full fledged commercial bank operating in Nepal; and it ranks in the topmost among the private commercial banks. Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices.

Machhapuchchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named *Globus banking system* developed by Temenos NV, Switzerland. Currently it is using the latest version of *Globus*, referred as T-24 banking system. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.

The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its Corporate Office in Kathmandu and branch offices in other parts of Kathmandu, Damauli, Bhairahawa, Birgunj, Banepa, and different parts of Pokhara in addition to the Head Office in Naya Bazar, Pokhara. A full-fledged banking branch is in operation in Jomsom located high up in the mountains too. The bank aims to serve the people of both the urban and rural areas. The bank intends to open many more

branches in the coming years and have planned to open more than 4 branches in the year 2009/10.

The main facilities provided by the bank to its customers are as follows:

- Mobile Banking
- MBL Debit Card
- Internet Banking
- Any Branch Banking
- Trade Finance
- Safe Deposit Locker
- Money2Nepal
- Remittance

Machhapuchchhre Bank Limited thus is indeed one of the pioneers of banking field in Nepal.

3. Kumari Bank Limited

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,304,935,920.00 of which 70% is contributed from promoters and remaining from public.

Kumari Bank states its mission is to be the preferred financial partner, by continuing to deliver innovative products and services to the customers, while cultivating an environment that promotes good corporate governance, risk management practices, and social responsibility.

Kumari Bank Ltd has been providing wide - range of modern banking services through 28 points of representations located in various urban and semi urban part of the country, 19 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any

branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance services, Online remit Services and various other banking services.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission. The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

3.3 Sources of data

Secondary data is the data collected by someone other than the user of the data. Common sources of secondary data for social science include censuses, surveys, organizational records and data collected through qualitative methodologies or qualitative research. Primary data also known as raw data is a term for data collected on such sources which have not been subjected to processing or any other manipulation. Simply put, the data observed or collected directly from first-hand experience is known as primary data whereas published data and the data collected in the past or by other parties are called secondary data.

For the most part, this thesis depends upon secondary sources of data. In some cases however, the published data are not found to be adequate for the purpose of this study. In such cases, some primary sources of data have also been used. In summary, the main sources of data used to complete this study are:

1. Bank's websites and other related websites.
2. Questions to bank officials, depositors, and academicians
3. Annual reports brochure etc. of the selected banks.

4. Text books, articles published in newspapers, journals magazines etc.
5. Data collection sheets (presented in the later section)

Secondary data, no doubt plays an important role in conducting a research study. These data are collected through different reports, books, journals, brochures, offices and internet. Various websites were found to be immensely useful for understanding the topic and its sub topics.

3.4 Data collection Techniques

There are a lot of methods and techniques to collect the required data from a known source. Also, the nature of data i.e. primary or secondary may be responsible for the adoption of appropriate data collection techniques. For the purpose of this study, primary data has been collected through the common sources such as: direct interviews, field visits, telephone inquiry, data collection sheets etc. Similarly, secondary data have been collected from the brochures, booklets, annual reports of the concerned banks, websites etc. Owing to the nature of the report, and due to its limitations, extreme efforts for the data collection (checking and rechecking the obtained data) is not done. However, every possible effort has been made to make the data collection procedure as accurate as possible.

3.5 Data Processing & Presentation

The data collected through primary or secondary sources may not be exactly in the form or format that we require it to be in. In such cases, it is necessary to change or manipulate the collected data into the suitable form which can be useful to us. For example, the data available on the brochures of the sample banks were mostly Profit & Loss A/Cs, Balance Sheets, Cash Flows, etc. But being a study under the subject of retail banking, those forms of data could not be directly used. However, a comprehensive calculation of correlation coefficient from the same data will be suitable for our purposes. That is the main reason for which the data has been processed or changed from its original shape and size where ever necessary. The data has been used through out the study and these data

are presented in table, diagram and chart with supporting interpretation, models to find out the present objective of the study.

3.5.1 Data Analysis Tools

Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains. There are various tools and techniques for Analysis and presentation of the data which are the core of each and every research work. In order to get concrete result from this research data are analyzed by using different types of description and analytical tools. Data analysis is the method of putting together facts and figures to solve research problem. Also, it is the systematic process of utilizing data to address research questions by breaking down research issues through utilizing controlled data and factual information.

There are various mathematical & statistical tools which could have been applied appropriately for this research. But only those tools that fit the suitability of this study are used. The relationship between two or more variables can be measured by using statistical tools. In this study, the following statistical tools are used:

Co-relation coefficient

Correlation may be defined as the degree of liner relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation could be of three types i.e. simple, partial and multiple correlations. The value of correlation coefficient may be positive, negative or zero. It can be classified as linear or non linear Here we study simple correlation only. In simple correction the effect of other is not excluded rather these are taken as constant considering them to have no serious effect on the dependent variable. It is calculated by using the given formula:

$$r_{xy} = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \cdot \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where,

r_{xy} = Correlation Coefficient between x and y

$n \sum xy$ = Product of no. Of observation and sum of product of x and y

$\sum x \cdot \sum y$ = Product of sum of x and y

Correlation 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 two variables.

If $r = 0$ the variables are uncorrelated.

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

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

Probable error (P.E.) of Correlation coefficient:

The probable error helps to interpret the value of correlation coefficient. In other words it is the measure of testing the reliability of calculated value of r . If r be the calculated value n pair of observation from sample of n pair of observation, P.E. is denoted by:

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

If $r > P.E$, it is not significant. It indicates there is no evidence of correlation.

If $r < P.E$, the correlation coefficient is certain. It is significant.

Coefficient of Determination

In statistics, the coefficient of determination R^2 is used in the context of statistical models whose main purpose is the prediction of future outcomes on the basis of other related information. It is the proportion of variability in a data set that is accounted for by the statistical model. It provides a measure of how well future outcomes are likely to be predicted by the model. It explains the variation percent derived in dependent variables due to the any is specified variable: it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable .it is square of correlation coefficient. One definition of coefficient of determination is related with cases that includes linear regression. In this case, if an intercept is included then R^2 is simply the square of the sample correlation coefficient between the outcomes and their predicted values, or in the case of simple linear regression, between the outcomes and the values of the single factor being used for prediction.

A high value of coefficient of determination shows a good listed relationship between the two variables of the value of coefficient of correlation. If $r=0.9$, then coefficient of determination, $r^2=0.81$ i.e. 81%. This 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. We use this tool in order to present the result of correlation analysis.

Trend projection (trend analysis):

Trend analysis refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. Trend analysis is a statistical technique to aid interpretation of data. When a series of measurements of a process are treated as a time series, trend estimation can be used to make and justify statements about tendencies in the data. By using trend estimation it is possible to construct a model which is independent of anything known about the nature of the process of an incompletely understood system (for example, physical, economic, or other system). This model can then be used to describe the behavior of the observed data. In particular, it may be useful

to determine if measurements exhibit an increasing or decreasing trend which is statistically distinguished from random behavior.

In this method, we fit a trend line using time series data. This trend line could be linear or collinear. In simple terms, we fit an equation of the given form by using the method of least square.

$$y = a + bx$$

In this equation y is the dependent variable and x is independent variable. In other words forecast values of y will be shaped by past pattern only.

Where,

$$a = \frac{\sum Y}{N} \text{ (Y- Intercept)}$$

$$b = \frac{\sum XY}{\sum X^2} \text{ (Slope of trend line or annual rate of growth)}$$

y = Dependent variable

x = deviation from some convenient time period

Variables

Variable is a logical set of attributes. Variables can "vary" - for example, be high or low. Variables are the characteristic, number, or quantity that increases or decreases over time, or takes different values in different situations. A variable could also be defined as a symbol to which numerals or values are assigned. These are the characteristics whose value keeps on changing or does not remain static. In other words, a variable can take on many values (pant & wolff.2005; 130). In the course of this study, the main variables taken into consideration are interest rate, inflation, per capita, GDP, investment amount etc.

Dependent variable

Dependent variable is the Factor or phenomenon that is changed by the effect of an associated factor or phenomenon called independent variable. For example, consumption is a dependent variable because it is caused and influenced by another variable income. In a mathematical equation or model, it is the variable whose value is to be determined by that equation or model. In an experiment, it is the variable whose behavior under controlled conditions (that are allowed to change in an organized manner) is studied.

A variable is called dependent variable if its values depend upon the other variables. Here our purpose is to study, analyze and product the variability in the dependent variable so that the research becomes realistic and reliable.

Independent variables

Independent variable is the factor or phenomenon that causes or influences another associated factor or phenomenon called dependent variable. For example, income is an independent variable because it causes and influences another variable consumption. In a mathematical equation or model, it is that variable whose value is given. In an experiment, it is the controlled condition (that is allowed to change in a systematic manner) whose effect on the behavior of a dependent variable is studied. It is also called controlled variable, explanatory variable, or predictor variable. A variable is called an independent variable if there is no effect of any other variable under study. Any change in the independent variable either positive or negative, leads to change in the dependent variable thus. The independent variables are those, which are used as the basis of production and the dependent variables is the variable that is been predicted.

The terms "dependent variable" and "independent variable" are used in similar but subtly different ways in mathematics and statistics as part of the standard terminology in those subjects. They are used to distinguish between two types of quantities being considered, separating them into those available at the start of a process and those being created by it,

where the latter (dependent variables) are dependent on the former (independent variables).

Primary data analysis tools:

Research data is either primary or secondary, depending on the source of the information. Both types of research data are valuable for market research or any other type of study.

Primary data is the specific information collected by the person who is doing the research. It can be obtained through clinical trials, case studies, true experiments and randomized controlled studies. This information can be analyzed by other experts who may decide to test the validity of the data by repeating the same experiments. Primary data is important for all areas of research because it is unvarnished information about the results of an experiment or observation. It is like the eyewitness testimony at a trial. No one has tarnished it or spun it by adding their own opinion or bias so it can form the basis of objective conclusions.

This thesis depends mostly on secondary data. However, on some instances it was necessary to obtain the primary data as well. In this research work data generated through questionnaire and personal interview of commercial bank's manages, officers, academicians and customers are analyzed using by ranking & descriptive method and are presented in table wherever appropriate. Primary data are based on survey of personal interview and questionnaire; there can be selective bias and of non response error.

Mainly, the primary data was collected for the purpose of ascertaining the actual value of Home Loans, Auto Loans, and Education Loan. These values were not provided in their required format in the secondary data sources. The actual amount of these loan types and their percentage with the total loan was ascertained with the help of the table given below.

Each of the three sample banks was provided with a page named *Data Collection Sheet* having the table given below and requested to fill it.

Data Collection Sheet

Fiscal Year	Total Loan	Home Loan	Personal Loan	Auto Loan
2062/63				
2063/64				
2064/65				
2065/66				
2066/67				

The data thus collected was highly helpful in further processing of the information.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The best of experiments and logical arguments still need to rely upon effective presentation of data, usually in the form of figures or tables. Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources. The main purpose of analyzing the data is to change it from an unprocessed form in a generalized presentation. The analysis of data consists of organizing data by tabulating and then placing the data in presentable form by using figures and tables. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. The main purpose of such analysis is to obtain answer to the research questions or to test the hypothesis. On the other hand, the presentation of data is the basic organization and classification of the data for analysis.

For the accomplishment of the objectives stated in the previous chapters, the defined course of research methodology has been followed and effort has been made to analyze the current trend of retail banking in Nepal. Present chapter will discuss the various aspects of retail banking and their actual accomplishment. For this respect, it will analyze the data by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. The main purpose of this section of this study is to derive, and thus provide the findings of this study.

4.2 Position of Home loan

Retail banking gives the Home Loan its major focus among all other segments when retail banking becomes a priority in the whole banking sector. Housing, being one of the most important needs of any human being is viewed as the prime retail business sector by

the banks. Due to the growth of upper middle class families that like to lead a nuclear family lifestyle, home loan is getting much popularity in the retail banking industry.

Table No. - 4.1
Home loan: Position, Contribution and Average Growth

Year Bank		062/63	063/64	064/065	065/066	066/067	Average Growth Rate
		NIBL	Loan amount (Rs. In million)	1978.02	3242.84	5951.77	
	Contribution in loan and advance	15.01 %	18.25 %	21.62 %	21.44 %	17.56 %	
KBL	Loan amount (Rs. In million)	873.20	1478.92	2176.51	3083.28	2425.99	34.22 %
	Contribution in Loan & advance	12.46 %	16.32 %	18.89 %	20.84 %	16.21 %	
MBL	Loan amount (Rs. In million)	899.31	1204.14	1773.08	2728.15	2528.94	31.93 %
	Contribution in loan and advance	14.63 %	16.45 %	19.78 %	21.01 %	16.89 %	

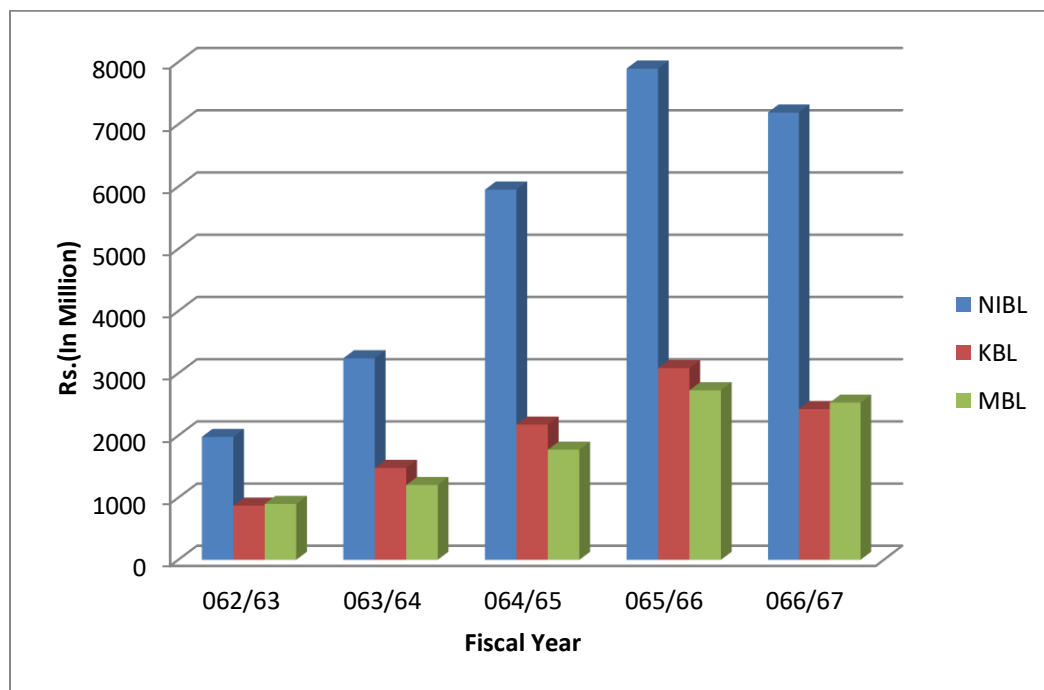
(Source: Annual report and internal sources, Appendix: I, II & III)

Table 4.1 depicts that the NIBL lead the Housing Finance by providing loan amounting Rs. 1978.02 million in 062/63, where as MBL followed the NIBL's path by disbursing loan amounting Rs. 899.31 million and KBL amounted Rs. 873.20 million. Similarly, in

the later years i.e. nearer to 2066/67, NIBL still leads the home loan segment by providing 7190.47 millions in Housing Loan.

Figure No - 4.1

Home loan Disbursement by Banks

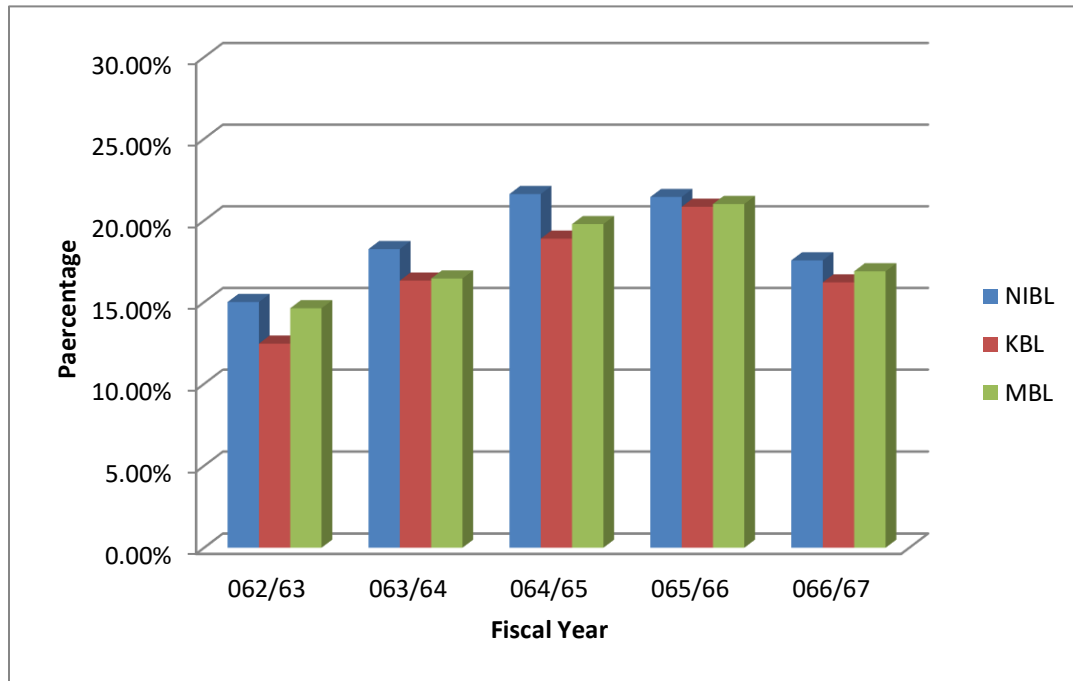


In fiscal Year 062/63, NIBL led the Housing finance by disbursing housing loan Rs.1978.02 million which is 15.01% of total loan and advance.

The above figure depicts that NIBL maintained its leadership in housing finance in throughout the period of five years by disbursing Rs. 1978.02 millions in 062/63, Rs. 3242.84 millions in 063/64, Rs 5951.77 millions in 064/65, Rs.7895.71 millions in 065/66 and finally Rs. 7190.47 millions in the year 066/67. In this way NIBL has kept its hold in the Housing finance which is mostly due to its high volume of Total loan and advance as compared to KBL and MBL. Housing finance is probably the mostly contributed segment in the retail banking which can be proved by the data regarding percentage of housing loan disbursement to loan and advance of NIBL's 17.56, KBL Bank's 16.21% and MBL's 16.89% in 2066/67.

Figure No - 4.2

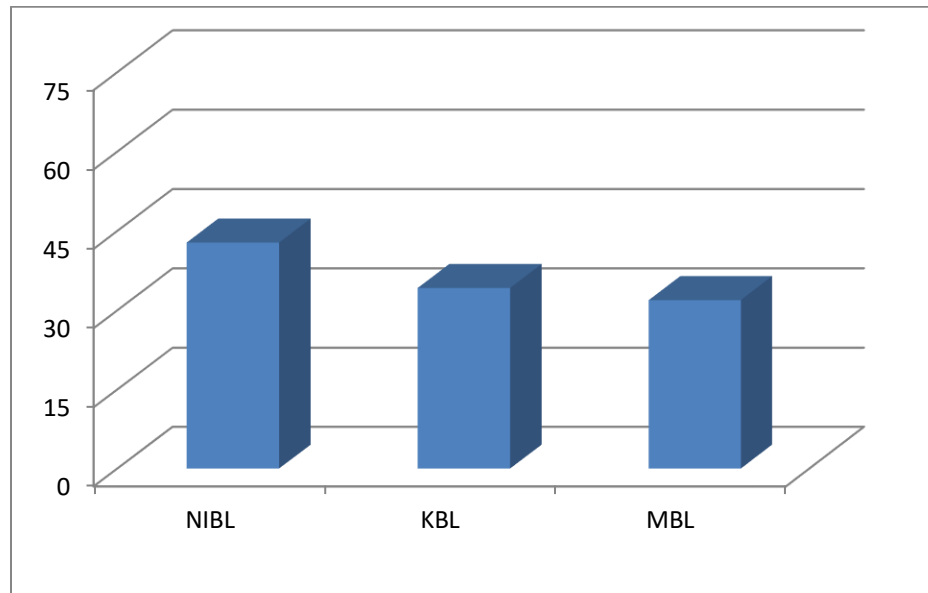
Home loan- Contribution in Loan and Advance



KBL and MBL have a relatively equal amount of home loan disbursed to the consumers. Whereas all these sample banks were able to grab the Nepalese consumer for housing segment, NIBL has been able to capture the largest market. As could be seen in the above Figure No 4.2, all the banks have relatively equal share of the Total loan and advance dedicated for the housing segment. From the above figure, we can also see that for the first four years all the banks have been able to increase their percentage of home loan on total. Similarly, the amount of home loan has also increased in those years. But in the final year i.e. 066/67, we see that the amount as well as the percentage of home loan has decreased. For NIBL, the amount has decreased from Rs.7895.71 millions to Rs.7190.47 millions whereas for KBL the amount has decreased from Rs.3083.28 to Rs.2425.99 millions.

Figure No - 4.3

Average Growth Rate in Home Loan



In the home loan segment, NIBL Bank has shown best performance having higher average growth rate of Rs. 42.80 percent followed by KBL with 34.22 percent and MBL with 31.93 percent. The higher growth rate of NIBL can be attributed to its relatively large numbers of transactions and the higher amount of total loan. It can be seen that despite the negative growth in the final years (066 and 067) the overall growth rate of all the three banks is still increasing with a healthy rate.

4.3 Position of Auto loan

Nepal is the growing market for automobiles. Various kinds of Automobiles are being launched in the Nepalese market. There are so many world class vehicle showrooms and still the numbers is growing at a steady pace. Nepalese consumers have diverted their preference from other form of property to own vehicle. That helped to boost in vehicle loan. The following analysis shows the recent position of Auto Loan in Nepal:

Table No. - 4.2

Auto Loan: Position Contribution and Average Growth

Year		062/63	063/64	064/065	065/066	066/067	Average Growth Rate
		Bank					
NIBL	Loan amount (Rs. In million)	297.82	589.93	1070.88	1671.95	2194.81	66.75 %
	Contribution in loan and advance	2.26 %	3.32 %	3.89 %	4.54 %	5.36 %	
KBL	Loan amount (Rs. In million)	227.06	424.10	629.10	868.47	932.38	45.13 %
	Contribution in Loan & advance	3.24 %	4.68 %	5.46 %	5.87 %	6.23 %	
MBL	Loan amount (Rs. In million)	205.31	338.92	467.02	747.94	932.82	46.94 %
	Contribution in loan and advance	3.34 %	4.63 %	5.21 %	5.76 %	6.23 %	

(Sources: Annual report and internal sources, Appendix; IV, V, VI)

Table 4.2 depicts that in fiscal year 062/63 NIBL has disbursed the Auto loan of Rs. 297.82 million by contributing 2.26 percent to total loan and advance. Where as KBL's Auto loan was Rs. 227.06 million having contribution of 3.24 percent to loan and

advance. MBL followed these two banks by providing Auto Loan to Nepalese consumer of Rs. 205.31 million being a contribution of 3.34 percent in its total loan and advances.

Figure No - 4.4

Auto Loan Disbursement by Banks

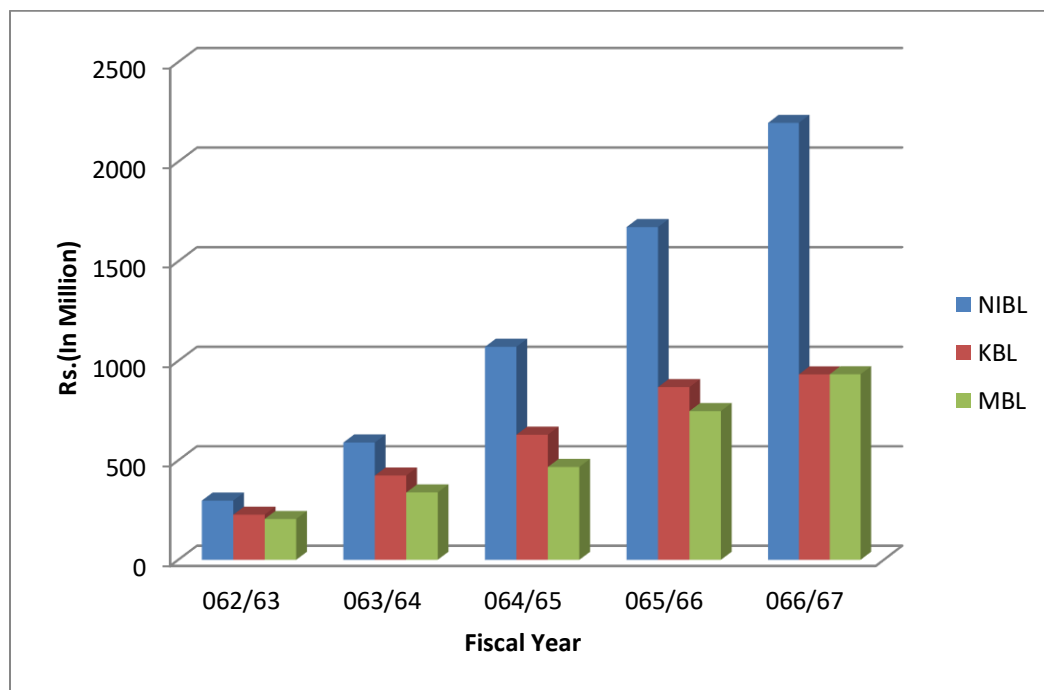
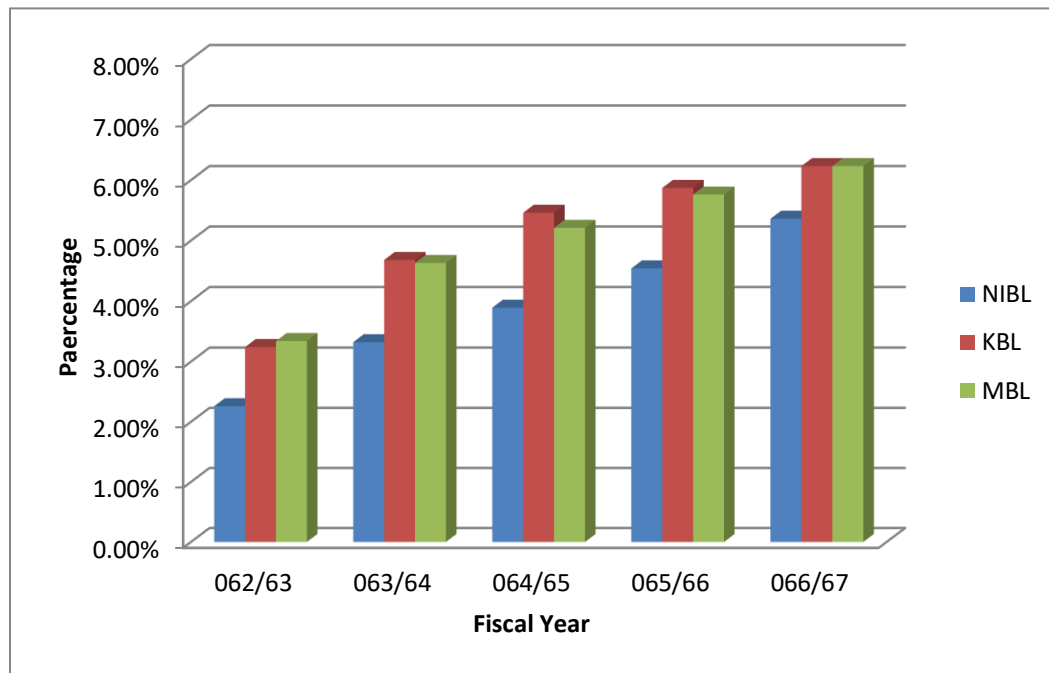


Figure 4.4 shows that NIBL bank is consistent in leading Auto loan segment through out the research period in terms of loan disbursement i.e. 2194.81 million in 2066/67 which comes 5.36 percent of total loan and advance. The bank is followed by KBL & MBL respectively through the period. The figure also shows that all the three sample banks are doing a good progress in the field of auto loan. All the three banks have been able to increase the volume of their transactions in the field of Auto financing.

Figure No - 4.5

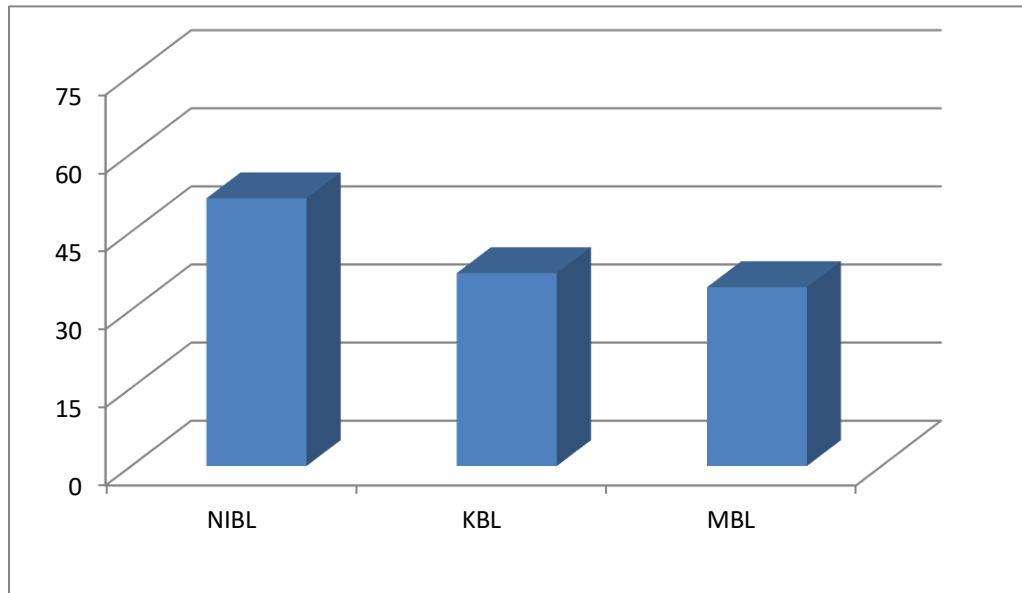
Auto Loan – Contribution in Loan and Advance



Though the actual volume of NIBL's auto loan is higher than that of KBL's and MBL's, its overall percentage of auto loan to the total loan is lower than those of KBL's and MBL's. NIBL seems to grant lower amount of Auto loan through out the period by granting 2.26 percent in 062/63, 3.89 percent in 064/65 and 5.36 percent in 066/67 in loan and advance, whereas KBL has disbursed 3.24 percent in the first year as compared to 3.34 percent disbursed by MBL. Similarly, the figure reveals that the KBL has disbursed 6.23 percent of its total loan to the auto sector in the year 066/67 whereas MBL as well has disbursed 6.23 percent of its total loan to the auto sector in the same year.

Figure No - 4.6

Average Growth rate in Auto Loan



In Auto loan disbursement NIBL is the leader followed by KBL and MBL on the basis of its volume. On the basis of average growth rate, the data reveals that NIBL has highest average growth rate of 66.75 percent and followed by MBL with a growth rate of 46.94 percent and KBL with a growth rate of 45.13 percent. Thus the data reveals that the overall auto loan sector of the retail banking is in growth in Nepal.

4.4 Position of Personal Loan

Personal loan has been dramatically increasing in the recent days with globalization and liberalization, fast manufacturing consumer goods, educational institution, and consumer durable products. The consumer Banking products other than Home loan and Auto Loan are taken under Personal loan. This type of loan has been in growth since it has been opened up to the international players of retail banking.

Table No. - 4.3

Personal Loan: Position Contribution and Average Growth

		Year					Average Growth Rate
		062/63	063/64	064/065	065/066	066/067	
Bank							
NIBL	Loan amount (Rs. In million)	772.23	1224.28	2100.46	3115.56	3963.77	51.41 %
	Contribution in loan and advance	5.86 %	6.89 %	7.63 %	8.46 %	9.68 %	
KBL	Loan amount (Rs. In million)	185.71	260.99	398.66	575.53	636.06	37.04 %
	Contribution in Loan & advance	2.65 %	2.88 %	3.46 %	3.89 %	4.25 %	
MBL	Loan amount (Rs. In million)	284.61	409.19	570.11	890.77	872.93	34.34 %
	Contribution in loan and advance	4.63 %	5.59 %	6.36 %	6.86 %	5.83 %	

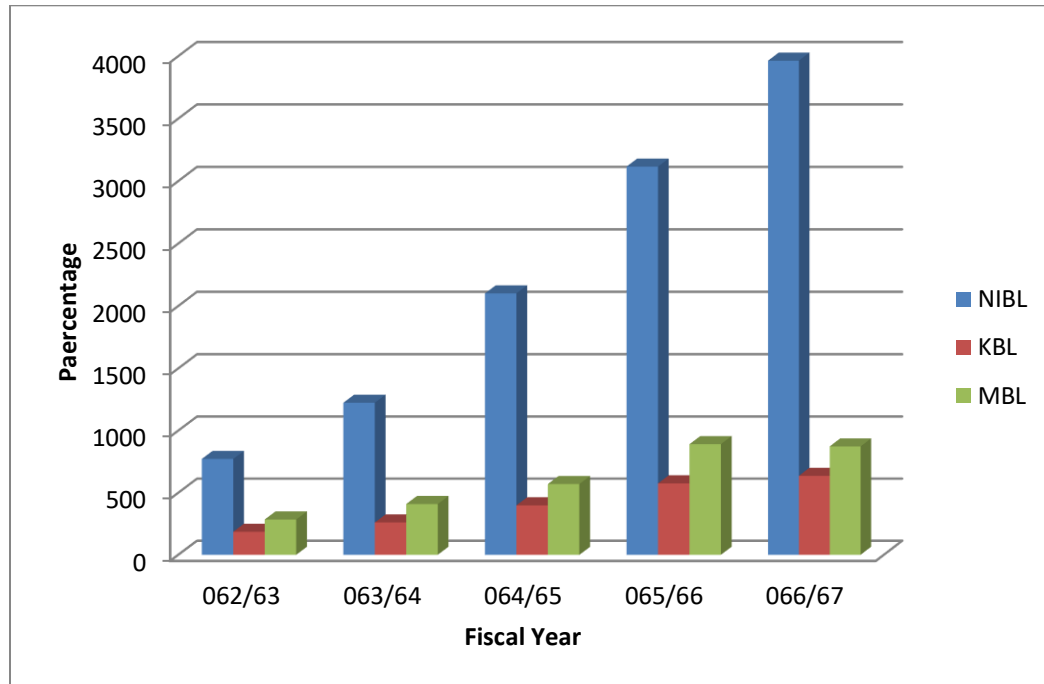
(Sources: Annual report and internal sources, Appendix; VII, VIII, IX)

Table 4.3 depicts that in fiscal year 062/63 NIBL has disbursed the personal loan of Rs. 772.23 million by contributing 5.86 percent to total loan and advance. Where as MBL's Loan to personal sectors was Rs. 284.61 million having contribution of 4.63 percent to loan and

advance. KBL bank followed these two banks by providing personal loan to Nepalese consumer of Rs. 185.71 million being a contribution to the total loan and advance of 2.65 percent.

Figure No - 4.7

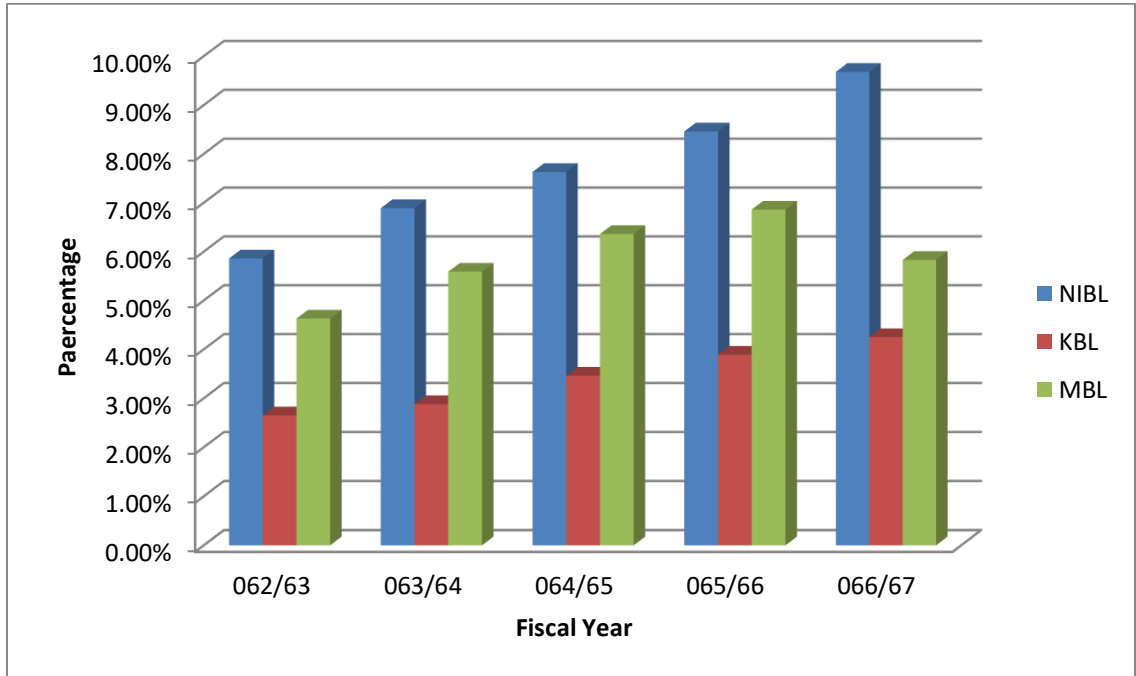
Personal Loan Disbursement by Banks



The above table depicts that, NIBL consistently leads the personal loan segment of the retail banking segment throughout the research period by disbursing personal loan of Rs. 3963.77 million in 2066/067 which is 9.68 percent of total loan and advance. The personal loan disbursed by MBL in 2066/67 is Rs. 872.93 million which is 5.83 percent of total loan and advance whereas KBL disbursed a personal loan of Rs. 636.06 million which is 4.25 percent of total loan and advance. This figure also depicts that KBL and MBL are consistently following the path of NIBL.

Figure No - 4.8

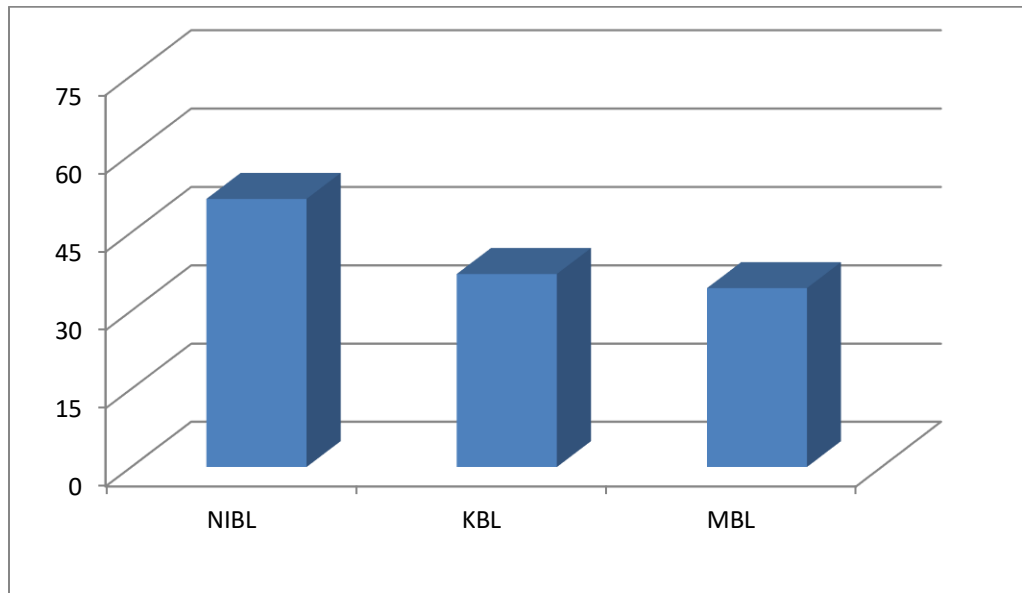
Personal Loan – Contribution in Loan and Advance



NIBL and MBL were able to grab the Nepalese consumer for personal loan segment by providing personal loan at 9.68 % and 5.83 % respectively in 2066/67. Where, KBL disbursed the personal loan by contributing 4.25 percent in loan and advance in the fiscal year 066/67. The pattern is remarkably similar in the previous four years included in this research study. The low amount as well as the percentage of personal loan on total loan and advance of Kumari Bank suggests that the bank has not been able to grasp the opportunities present in the market adequately at present.

Figure No - 4.9

Average Growth rate in Personal Loan



In personal loan segment, NIBL has shown best performance having highest average growth rate of 51.41 percent and followed by KBL with a growth rate of 37.04 percent and finally MBL with a low growth rate of 34.34 percent. This figure shows that despite its low contribution in the sector of personal loan, KBL has a growth rate higher than that of MBL which is a positive sign.

4.5 Relationship between Retail Banking Products and Total Loan and Advance

One of the main objectives of this study is to know the relationship between loan on retail banking segments and Total Loan and Advance. In other words, the major motive is to explore the share of home loan, Auto loan and personal loan out of total loan and advance. It is evident that in the past few years, financial institutions are not getting appropriate avenue for investment. So they are forced to search new sectors for investment and ultimately inter into retail banking. This scenario has diverted a considerable portion 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. They do not give any contribution to the growth of economy. So by this analysis tries to know the relationship of retail banking and the total loan and advance.

4.5.1 Analysis of Correlation Coefficient between Home Loan and Total loan and advance for NIBL, KBL and MBL

The coefficient of correlation between Home loan and total loan and advance is to measure the degree of relationship between two variables i.e. Home loan sector and Total Loan and advance. The following table no. 4.4 describes the relationship between home loan and total loan and advances of NIBL, KBL and MBL with comparison under five years study period. In the following case, Home loan is independent variable (x) and Total loan and advances is dependent variable (y).

Table No. - 4.4

Correlation Coefficient between Home loan and Total and Advance

Banks	Base of Evaluation		
	r	r ²	P.E.
NIBL	0.965	0.931	0.0207
KBL	0.951	0.904	0.0291
MBL	0.953	0.909	0.0274

(Sources: Appendix X, XI, XII)

Table 4.4 depicts that there is high degree of positive correlation coefficient between the home loan with total loan and advance for all the sample banks. It indicates that higher the Loan and Advance, higher is the Home Loan. So, we can conclude that to boost the home loan the banks should increase its total loan and advance. The correlation coefficient value between home loan and total loan and advances for the sample banks NIBL, KBL and MBL are 0.965, 0.951 and 0.953 respectively.

The value of coefficient of determination i.e. R² of NIBL is 0.931, which means 93.1 percent of home loan decision depends upon total loan and advances and only 6.9 home

loan decisions depend upon other variables. The value of R^2 of KBL bank is 0.904 which means that 90.4 percent of home loan decision depends upon loan and advances and only 9.6 percent home loan decisions depend upon other variables. Similarly, the value of R^2 of MBL is 0.909, which means 90.9 percent of home loan decision depends upon loan and advances and only 9.1 percent home loan decisions depend upon other variables.

4.5.2 Analysis of Correlation Coefficient between Auto Loan and Total loan and advance for NIBL, KBL and MBL

The correlation coefficient between auto loan and total loan and advance is to measure the degree of relationship between two variables. The following table no. 4.5 describes the relationship between Auto loan and total loan and advance of NIBL, KBL and MBL with comparison under five years study period. In the following case, Auto loan is independent variable (x) and total loan and advance is dependent variable (y).

Table No. - 4.5

Correlation Coefficient between Auto loan and Total and Advance

Banks	Base of Evaluation		
	r	r^2	P.E.
NIBL	0.990	0.980	0.0062
KBL	0.998	0.995	0.0014
MBL	0.998	0.996	0.0013

(Sources: Appendix XIII, XIV, XV)

Table 4.5 depicts that the correlation coefficient between Auto loan and Total loan and advances value of NIBL, KBL and MBL are 0.990, 0.988 and 0.998 respectively. This shows the high degree of positive condition coefficient between Auto loan and total loan and advance. It indicates that the higher loan and advance higher the Auto loan. So, to boost the Auto loan sector the banks must increase the overall Total loan and advance.

The value of R^2 of NIBL is 0.980 which means 98.0 percent of total loan and advances decisions depend upon Auto loan and only 2.0 percent loan and advance decisions depend upon other variables. The value of R^2 of KBL Bank is 0.995 which means that

99.5 percent of loan and advances decisions depend upon Auto loan and only 0.5 percent loan and advances decisions depend upon other variables. The value of R^2 of MBL Bank is 0.996 which means that 99.6 percent of loan and advances decisions depend upon Auto loan and only 0.4 percent loan and advances decisions depend upon other variables.

4.5.3 Analysis of Correlation Coefficient between Personal Loan and Total loan and advance for NIBL, KBL and MBL

The correlation coefficient between personal loan and total loan and advance is to measure the degree of relationship between two variables. The following table no. 4.6 describes the relationship between personal loan and total loan and advance of NIBL, KBL and MBL with comparison under Five years study period.

Table No. - 4.6

Correlation Coefficient between Personal loan and Total and Advance

Banks	Base of Evaluation		
	r	r²	P.E.
NIBL	0.992	0.983	0.0050
KBL	0.992	0.984	0.0047
MBL	0.972	0.945	0.0166

(Sources: Appendix: XVI, XVII, And XVIII)

Table no. 4.6 depicts that the correlation coefficient between personal loan and total loan and advances values of NIBL, KBL and MBL are 0.992, 0.992 and 0.972 respectively. This shows the high degree of positive correlation coefficient between personal loan and total loan and advance. It indicates that the higher loan and advance higher the personal loan. So, to boost the personal loan the banks must increase the overall total loan and advance.

The value of R^2 of NIBL Bank is 0.983 which means that 98.3 percent of loan and advances decision depends upon Personal loan and only 1.7 percent loan and advances decisions depend upon other variables. Similarly, the value of R^2 of KBL Bank is 0.984 which means that 98.4 percent of loan and advances decision depends upon Personal loan

and only 1.6 percent loan and advances decisions depend upon other variables. The value of R^2 of MBL Bank is 0.945 which means that 94.5 percent of loan and advances decision depends upon Personal loan and only 5.5 percent loan and advances decisions depend upon other variables.

4.6 Trend Analysis

Trend analysis refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. Trend analysis is a statistical technique to aid interpretation of data. When a series of measurements of a process are treated as a time series, trend estimation can be used to make and justify statements about tendencies in the data. By using trend estimation it is possible to construct a model which is independent of anything known about the nature of the process of an incompletely understood system (for example, physical, economic, or other system). This model can then be used to describe the behavior of the observed data. In particular, it may be useful to determine if measurements exhibit an increasing or decreasing trend which is statistically distinguished from random behavior.

To find out the future scenario of home loan, Auto loan and personal loan for sample banks, trend analysis has been done. This statistical test describes the trend of any variables with passage of time. Most popular method for trend analysis is least square method.

In this method, we fit a trend line using time series data. This trend line could be linear or collinear. In simple terms, we fit an equation of the given form by using the method of least square.

$$y = a + bx$$

In this equation y is the dependent variable and x is independent variable. In other words forecast values of y will be shaped by past pattern only.

4.6.1 Trend Analysis of Home Loan for NIBL, KBL and MBL

In this section, an attempt has been made to analyze the trend value of home loan for NIBL, KBL and MBL and to forecast the possible amount of home loan, based on the past data, for the coming two years. For the purpose of calculation, time (X) is taken as an important factor and the whole data is treated as a time series. The actual amount of home loan is taken as the dependent variable Y.

Table No. - 4.7

Trend Analysis of Home Loan for NIBL, KBL and MBL (in million)

Year	NIBL		KBL		MBL	
	Home Loan	Trend Value	Home Loan	Trend Value	Home Loan	Trend Value
062/63	1978.02	2236.21	873.2	1065.59	899.31	870.07
063/64	3242.84	3743.99	1478.92	1536.59	1204.14	1348.40
064/65	5951.77	5251.76	2176.51	2007.58	1773.08	1826.72
065/66	7895.71	6759.54	3083.28	2478.57	2728.15	2305.05
066/67	7190.47	8267.32	2425.99	2949.57	2528.94	2783.38
067/68		9775.09		3420.56		3261.71
068/69		11282.87		3891.56		3740.03
Mean(a)		5251.76	Mean (a)	2007.58	Mean (a)	1826.72
Rate of Change (b)		1507.78	Rate of change (b)	470.99	Rate of change (b)	478.33
Trend Equation		$Y_c = 5251.76 + 1507.78 x$	Trend Equation	$Y_c = 2007.58 + 470.99 x$	Trend equation,	$Y_c = 1826.72 + 478.33 x$

(Sources: Appendix XIX, XX, XXI)

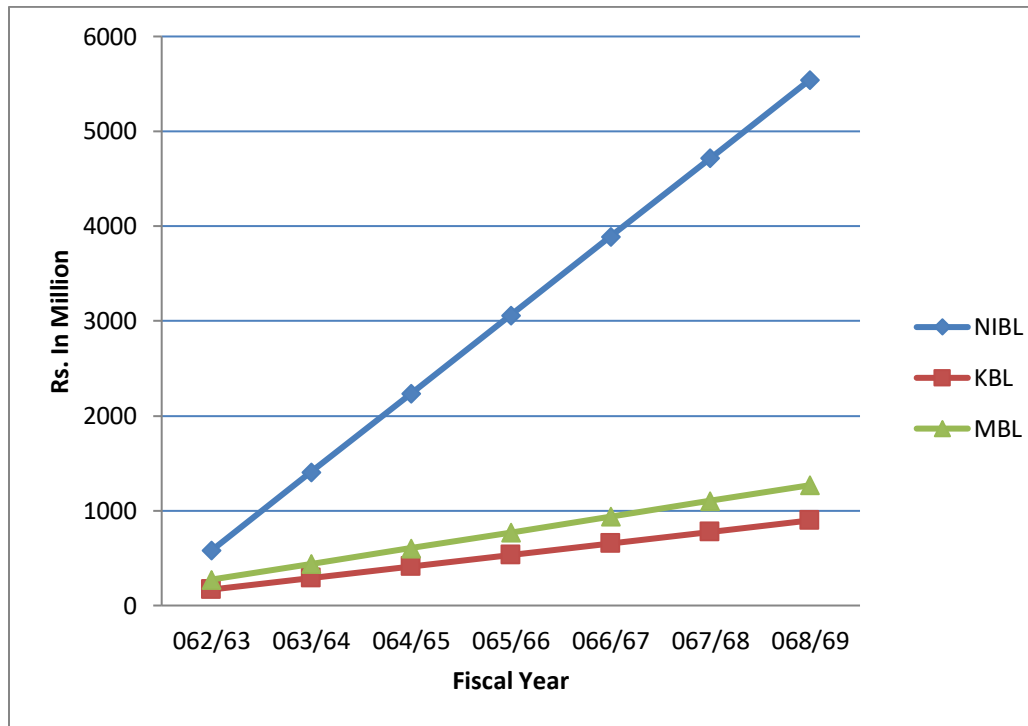
The above table shows the trend amount of Auto loan for NIBL, KBL and MBL and forecasts the amount for the coming two years.

The above table depicts that the amount of home loan of all banks follows a trend. The rate of changes of NIBL, KBL & MBL are Rs. 1507.78 million, Rs. 470.99 million and Rs. 478.33 million respectively. The mean home loan of NIBL's Rs. 5251.76 million KBL's Rs. 2007.58 million and MBL's Rs.1826.72 million in the study period.

If other things remain same, the home loan of NIBL, KBL and MBL for the fiscal year 067/68 will be Rs. 9775.09 million, Rs. 3420.56 million and Rs. 3261.71 million respectively. Similarly, the home loan of same banks for the fiscal year 068/69 will be Rs. 11282.87 million, Rs. 3891.56 million and Rs. 3740.03 million respectively. These facts can be clearly presented in the form of a Graph as following.

Figure No - 4.10

Trend Analysis of Home Loan for NIBL, KBL and MBL



The above figure indicates that the leader of Home loan segment NIBL since the beginning and it still continues to lead the other two competitors. The two other banks i.e. KBL and MBL are far below the NIBL in respect of the loan volume.

4.6.2 Trend Analysis of Auto Loan for NIBL, KBL and MBL

In this section, an attempt has been made to analyze the trend value of auto loan for NIBL, KBL and MBL and to forecast the possible amount of auto loan, based on the past data, for the coming two years. For the purpose of calculation, time (X) is taken as an important factor and the whole data is treated as a time series. Similarly, the actual amount of auto loan is taken as the dependent variable Y. The following table no. 4.8 shows the trend amount of Auto loan for NIBL, KBL and MBL and forecasts the amount for the coming two years.

Table 4.8 depicts that the amount of Auto loan of all banks are in increasing trend. The rate of changes of NIBL, KBL and MBL are Rs. 487.60 million, Rs. 185.50 million and Rs. 186.40 million respectively. The mean Auto loan of NIBL's Rs. 1165.08 million, KBL's Rs. 616.22 million and MBL's Rs. 538.40 million in the study period.

Table No. - 4.8

Trend Analysis of Auto Loan for NIBL, KBL and MBL (in million)

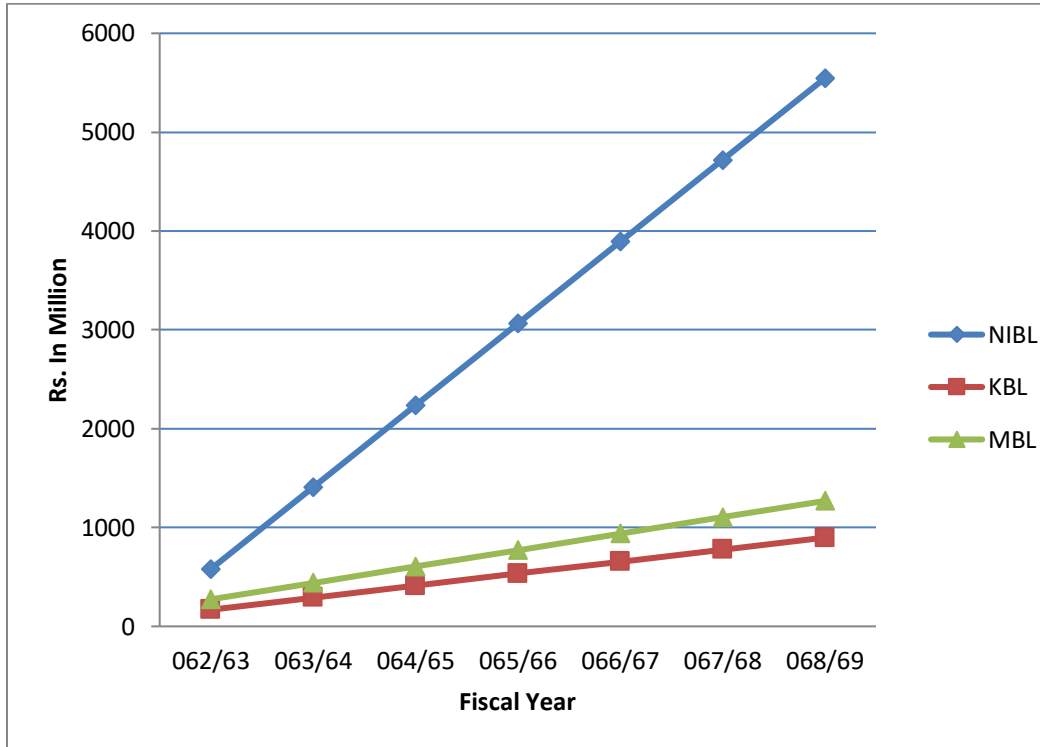
Year	NIBL		KBL		MBL	
	Auto Loan	Trend Value	Auto Loan	Trend Value	Auto Loan	Trend Value
062/63	297.82	189.88	227.06	245.22	205.31	165.59
063/64	589.93	677.48	424.1	430.72	338.92	352.00
064/65	1070.88	1165.08	629.1	616.22	467.02	538.40
065/66	1671.95	1652.68	868.47	801.72	747.94	724.81
066/67	2194.81	2140.28	932.38	987.22	932.82	911.21
067/68		2627.88		1172.73		1097.61
068/69		3115.48		1358.23		1284.02
Mean(a)		1165.08	Mean (a)	616.22	Mean (a)	538.40
Rate of Change (b)		487.60	Rate of change (b)	185.50	Rate of change (b)	186.40
Trend Equation		$Y_c = 1165.08 + 487.60 x$	Trend Equation	$Y_c = 616.22 + 185.50 x$	Trend equation,	$Y_c = 538.40 + 186.40 x$

(Sources: Appendix XXII, XXIII, XIV)

If other things remain the same, the Auto loan of NIBL, KBL and MBL for the fiscal year 067/68 will be Rs. 2627.88 million, Rs. 1172.73 million and Rs. 1097.61 million respectively. Similarly, the Auto loan of same banks for the fiscal year 068/69 will be Rs. 3115.48 million, Rs. 1358.23 million and Rs. 1284.02 million respectively. These facts can be presented in Graph 4.11 as following.

Figure No - 4.11

Trend Analysis of Auto Loan for NIBL, KBL and MBL



The above figure shows that the auto loan segment of NIBL is growing with a higher rate than the other sample banks in the research period. The two other banks i.e. KBL and MBL have not been able to compete effectively with NIBL.

4.6.3 Trend Analysis of Personal Loan for NIBL, KBL and MBL

In this section, an attempt has been made to analyze the trend value of personal loan for NIBL, KBL and MBL and to forecast the possible amount of personal loan, based on the past data, for the coming two years. For the purpose of calculation, time (X) is taken as an important factor and the whole data is treated as a time series. The actual amount of home loan is taken as the dependent variable Y. The following Table shows the trend amount of personal loan for NIBL, KBL and MBL and forecasts the amount for the coming two years.

Table No. - 4.9

Trend Analysis of Personal Loan for NIBL, KBL and MBL (in million)

Year	NIBL		KBL		MBL	
	Personal Loan	Trend Value	Personal Loan	Trend Value	Personal Loan	Trend Value
062/63	772.23	580.39	185.71	168.34	284.61	273.88
063/64	1224.28	1407.82	260.99	289.87	409.19	439.70
064/65	2100.46	2235.26	398.66	411.39	570.11	605.52
065/66	3115.56	3062.70	575.53	532.91	890.77	771.34
066/67	3963.77	3890.13	636.06	654.44	872.93	937.17
067/68		4717.57		775.96		1102.99
068/69		5545.00		897.49		1268.81
Mean(a)		2235.26	Mean (a)	411.39	Mean (a)	605.52
Rate of Change (b)		827.44	Rate of change (b)	121.52	Rate of change (b)	165.82
Trend Equation		$Y_c = 2235.26 + 827.44 x$	Trend Equation	$Y_c = 411.39 + 121.52 x$	Trend equation,	$Y_c = 605.52 + 165.82 x$

(Sources: Appendix XXV, XXVI, XVII)

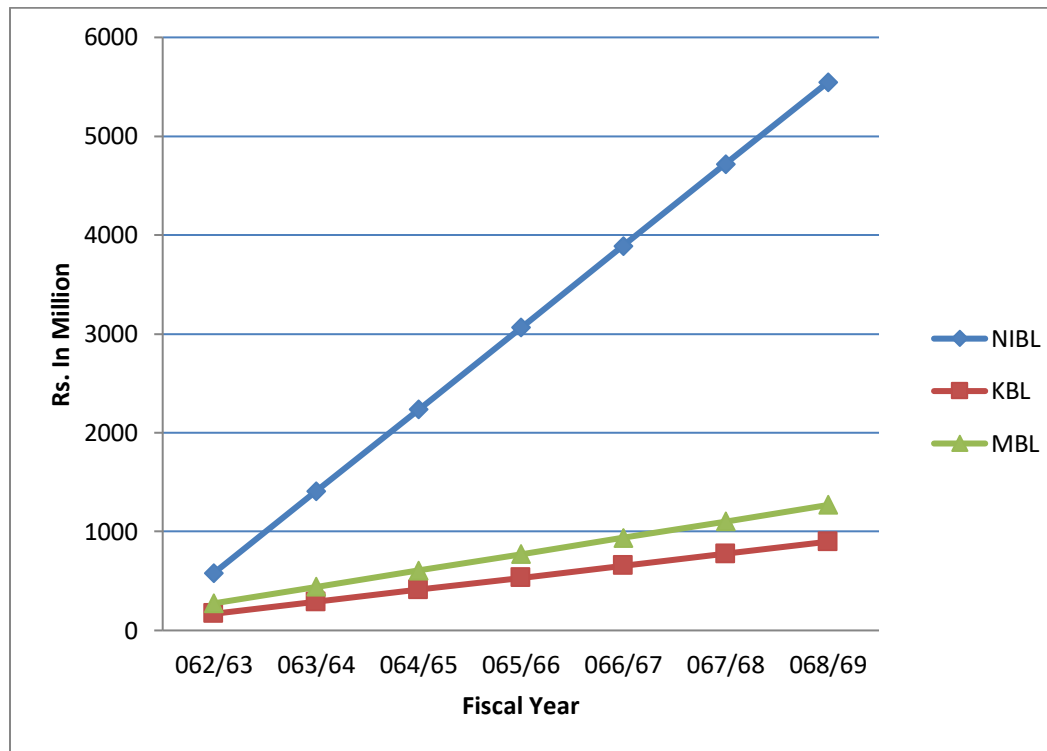
Table 4.9 depicts that the amount of personal loan of all banks are in increasing trends. The rate of changes of NIBL, KBL and MBL are Rs. 827.44 million, Rs. 121.52 million and Rs. 165.82 million respectively. The mean personal loan of NIBL's Rs. 2235.26 million, KBL's Rs. 411.39 million and MBL's Rs. 605.52 million in the study period.

If other things remain the same, the personal loan of NIBL, KBL and MBL for the fiscal year 067/68 will be Rs. 4717.57 million, Rs. 775.96 million and Rs. 1102.99 million respectively. Similarly, the personal loan of some Banks for the fiscal year 068/69 will be

Rs. 5545.00 million, Rs. 897.49 million and Rs. 1268.81 million respectively. These facts can be presented in the form of a graph as following.

Figure No - 4.12

Trend Analysis of Personal Loan for NIBL, KBL and MBL



The above figure shows that the auto loan segment of NIBL is steadily growing with a higher rate than the other sample banks in the research period. Other sample banks have not been able to catch up with NIBL in this respect.

4.7 Findings of the Study

- The amount of home loan for all banks under the study is in increasing trend.
- The amount of home loan for NIBL, KBL and MBL was Rs. 1978.02 million, Rs. 873.20 million and Rs. 899.31 million respectively in 062/63. And these amounts have increased to Rs. 7190.47 million, Rs. 2425.99 million and Rs. 2528.94 million respectively in 066/67.
- Home Loan in the last two years for all the three banks is falling. This sudden negative growth was initiated by the recent policy of the government that places some severe restrictions on the banks regarding the home loan sector. The processes for the home loan have been made more complicated.
- From these result, it is concluded that the position of home loan for NIBL, KBL and MBL were in better position before the new government policy but since then the Home loan sector is suffering. All the banks are provided greater proportion of their funds on retail banking. But the NIBL bank has led the home loan segment by disbursing higher home loan and it also has the highest growth rate of 42.80 percent in this segment.
- The contribution of home loan in total loan and advance by all banks are in increasing trend except for the last two years.
- The contribution of home loan in total loan and advance for NIBL was 15.01 percent, for KBL, it was 12.46 percent and for MBL was 14.63 percent in 062/63 and it has reached to 17.56 percent. 16.21 percent and 16.89 percent respectively in 066/67. The average growth rate of home loan for these banks are 33.68 percent, 34.22 percent and 31.93 percent respectively.
- From these result, it can be concluded that the contribution of home loan in total loan and advance of all sample banks are in better position except for the last two years. The positive overall growth of the home loan implies that the negative growth in these last two years has yet to pronounce its full effect on the Home

Loan sector. This means that the overall transactions in the home loan sector of the entire retail banking sector may further decline.

- The amount of Auto loan for all the sample banks under the study is in increasing trend.
- The amount of Auto loan for NIBL, KBL and MBL were Rs. 297.82 million, Rs. 227.06 million and Rs. 205.31 million respectively in 062/63. And these amounts have increased to Rs. 2194.81 million, Rs. 932.38 million and Rs. 932.82 million respectively in 066/67.
- From these result, it is concluded that the position of Auto loan for NIBL, KBL and MBL are in better position. But NIBL bank has leaded the Auto loan segment by disbursing higher auto loan in all the five years.
- The contribution of auto loan in total loan and advance for NIBL was 2.26%, for KBL was 3.24% and for MBL was 3.34% in 062/63 and it has reached to 5.36%, 6.23% and 6.23% respectively in 066/67. The average growth rate of Auto loan for these banks are 66.75%, 45.13% and 46.94% respectively.
- From these results, it is concluded that the contribution of auto loan in total loan and advance by all banks are in increasing trend. But NIBL bank has shown the best performance because of its highest contribution towards the auto loan sector. Again the average growth rate of auto loan for NIBL is comparatively better than KBL and MBL. This superiority of the NIBL can be explained by the high amount of its total loan which we have found to have a considerable degree of correlation with Auto loan.
- The amount of Personal loan for all the sample banks under the study is in increasing trend.
- The amount of personal loan for NIBL, KBL and MBL were Rs. 772.23 million, Rs. 185.71 million and Rs. 284.61 million respectively in 062/63. And these amounts have increased to Rs. 3963.77 million, Rs. 636.06 million and Rs. 872.93 million respectively in 066/67.

- From these results, it is concluded that the position of personal loan for NIBL, KBL and MBL are getting much better. But NIBL leads this segment by disbursing higher personal loan.
- The contribution of personal loan in total loan and advance for NIBL was 5.86%, for KBL 2.65% and for MBL was 4.63% respectively in 062/63 and it has reached to 9.68%, 4.25% and 5.83% respectively in 065/66. The average growth rate of Personal loan for these banks are 51.41%, 37.04% and 34.34% respectively.
- From these result, it is concluded that the contribution of personal loan in total loan and advance of all the banks are in increasing trend but the percentage of NIBL is increasing with a higher rate than that of other sample banks.
- This study has found that highly positive correlation coefficient exists between home loan and total loan and advance of more than 0.95 in all the three banks. As well, it is also found in all three banks that coefficient of determination of more than 90%. These data signify that there is a significant relationship between the variables analyzed i.e. home loan and total loan and advance of NIBL, KBL and MBL. But NIBL has the highest degree of correlation coefficient of 0.965 between home loan and total loan and advance than other two banks. It implies that the NIBL Bank has a higher degree of relationship between Home loan and total loan and advance in comparison to KBL and MBL.
- This study has found that highly positive correlation coefficient exists between Auto loan and total loan and advance of more than 0.98 in all the three banks. These signify that there is significant relationship between the variables i.e. Auto loan and total loan and advance of NIBL, KBL and MBL. In addition, it is also found that the coefficient of determination in all three banks is more than 96%. The data further suggests that KBL and MBL have the highest degree of correlation coefficient between Auto loan and total loan among the three banks. It can be implied that the auto loan sector of all the three banks depend heavily on the amount of Total loans disbursed.

- This study has found that highly positive correlation coefficient exists between personal loan and total loan and advance of more than 0.96 in all the three banks. Furthermore, it is also found that the coefficients of determination of all these three banks are more than 92%. These results imply that there is a significant relationship between the variables that are analyzed in this research i.e. Personal Loan and Total Loans and Advance of NIBL, KBL and MBL. But NIBL and KBL have the equal highest degree of correlation coefficient between personal loan and total loan among the three sample banks. We can further conclude that the personal loan of all the three banks is highly related with their respective total loan and advance.
- From the trend analysis, it is found that the amount of Home Loan of all the three banks is in increasing trend. But in reality the amount of home loan is decreasing and is likely to decrease further. This error in the trend is due to the fact that home loan was increasing steadily for the last four years with a healthy rate of growing. The higher rate of change maintained by NIBL bank indicates that its increasing trend is better position than KBL and MBL in Home loan segment.
- It is found that the amounts of auto loan for the three banks are in increasing trend. The Rate of change and mean value of NIBL bank is higher than KBL and MBL. That means the NIBL has better increasing trend than NIBL and MBL.
- It is found that the amount of Personal loan of all the three banks is in increasing trend. The rate of change and mean value of NIBL is higher than KBL and MBL. That means the NIBL has better increasing trend than KBL and MBL.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The world of banking and finance has changed dramatically during past few years. After the government introduced the liberalization policy many banks and other financial institutions have been established. Nepalese banks are now offering new products and services to achieve their goal. Many Nepalese banks have completely segregated their retail banking function from the investment banking and private banking. In the initial phase of launching the retail banking in Nepal, the banks were freely enjoying the benefits and high profits from the new field in which they invested their resources. Banks were enjoying a lot of business because of expansion in the economy. But in the recent years there have been more competition thus leading the banks to operate under thin interest spreads, declining margins and rising costs.

The problem of proper investment has always been the most important limitation for Nepalese banks. The fear of loan defaults due to the failure of the clients in their business venture is a major restraining factor for the fast development of banking sector. But with the rise of retail banking sector, the risk of the loans are decreasing because the retail sector provides mortgage type loans which are secured by the same products in which they invest. Thus the banks will have nothing except to gain by using their resources in the retail sector. But the banks have still to learn to cope with the fierce competition prevalent in this sector.

This study “*Present Scenario of Banking Products And Services In Nepal*” is primarily prepared for the partial fulfillment of the requirement of Master of Business Studies (MBS). This study is mainly based on secondary and primary data provided by concerned banks. Among the 29 listed commercial banks 3 major consumer friendly commercial banks are selected as sample. The main objective of the study is to find out the present position and trend of retail banking and its products in Nepal. Information is collected for

the period of 2062/063 to 2066/067. The collected information is presented, analyzed and conclusion is drawn from the study. The basic organization of this study is presented below.

Chapter one of this thesis deals with the introduction of the whole study which provides the complete framework for the research work. It tries to explain the basic concept of retail banking, retail banking players, the selected banks, objectives of the study, limitations of the study and the statement and organization of the study, which provides guideline for entire study. Similarly, chapter two deals with all the necessary steps for the review of literature. Under which, the review of related previous studies, journals and article etc. is done. Also, chapter third specifies the methodology for conducting this research and specifies the guidelines, tools and techniques for research design to achieve the objectives of the study. Chapter four is for the analysis and presentation of data in a suitable form. Correlation coefficients between the relevant figures as well as probable error are considered as the main statistical tools in this study. Trend analysis is the other important tool used in this section. Required data for this research are collected through different sector and annual reports of related banks. The final chapter i.e. chapter five is the most important part which shows all the conclusions drawn from the findings and the recommendations for the concerned parties.

5.2 Conclusion

This study "*Present Scenario of Retail Banking in Nepal*" tries to analyze the existing situation of retail banking in Nepal based on the data provided in the financial statement as well as other sources. Present study has been fairly successful in exploring the findings of the result as designed. Various statistical tools were used for the study depending upon the requirements of nature of data. For the successful conclusion of this study, secondary as well as primary sources of information were used. Based on the data analysis and findings of the result, various useful conclusions were drawn which can be presented as follows:

The research has been able to clearly imply that retail banking segment in Nepalese commercial banks is continuously in the way of increasing trend since its introduction.

Retail banking has started playing an important role in the business of the commercial banks in Nepal. In response to this increasing trend there have been active efforts within the Nepalese banks to be more focused on consumer products and services. As the Nepalese banks have been able to capture only a marginal fraction of the total demand for the retail products and services, there is yet a lot to be done in this segment. The banks can enjoy a tremendous growth in the volume of their total transactions with the help of the retail products and services. The commercial banks of Nepal should focus more of their attention towards developing the not yet properly explored sector of retail banking.

It is clear that the future of retail banking depends on technology, marketing and capital employment on the sector. The research further confirms the generally accepted fact that the Nepalese banks need to remain in the fair competition in retail banking; banks will need to operate efficiently, develop and deliver products on time, engage themselves in leveraging the multiple channels of delivery such as the internet, mobile banking, e-cash and the ATMs. Technology facilitates reduction in transaction cost and provides the ability to do business in large volumes. The comparatively new concept of retail banking deserves a new kind of management skill which is highly likely to be required in managing the retail-lending portfolio. Banks should invest their resources in developing their powers in the field of product innovation, rationalization of service charges, competitive pricing and simplified procedures for documentation. These activities, if followed by the banks are likely to boost their performance especially in the field of retail banking.

In Nepal Retail Banking has always been prevalent in various forms ever since banking was first established. The banks should further devote their interests in the field of retail banking to grab the immense opportunities that are still unexplored in this field. For many banks, Retail banking at present, is synonymous with main stream banking, with vast sums of money invested in creating and sustaining a retail brand further supported by requisite technological and staffing support.

The immense development experienced by the retail banking sector in all the existing Nepali banks are due to the following major causes:

- The extraordinary growth recently experienced by the retail sector.
- Fear of corporate defaults due to the excessive risk in this sector.
- Relative safety of the retail transactions implied by mortgage styled loans.
- Low credit transactions due to the various economic causes like political instability, slow banking services, complex formalities etc. from commercial and corporate sectors during the last few years.

5.3 Recommendations

The study, having found that the overall retail sector is thriving throughout the research period, suggests some very useful points to maintain and further develop the status of this sector. Among the three sample banks, Nepal Investment Bank Limited (NIBL) has been the most successful bank having disbursed the highest amount of Home, Auto and Personal loans. Similarly, the other two banks are also doing their best to gain their share of this sector. On the basis of the findings and conclusion, the following recommendations are made to improve retail banking policies and schemes.

- Retail banking is the best option for investment when there are less investment opportunities in the country. Regarding this, all the sample banks are performing well in this sector quite satisfactorily. All the sample banks are in a fine position in the field of retail banking. It is further recommended to the banks to raise their consumer base in the retail banking sector in order to maximize loan on this sector.
- Another barrier for the quick growth of retail sector is its interest rate, which is comparatively higher in comparison to other global commercial banks. Since the Nepalese banks have to compete with domestic as well as international banks, they are recommended to lower down their interest rate.

- Banks should raise their budget on research and innovation of new products in the field of retail banking. Nepalese Banks often fail to develop quality products, launch them in the market at the right time and on the other hand they lack product diversification. So, Product innovation, Product development and Product diversification are strongly recommended to the sample banks as well as other commercial banks in Nepal.
- The Banks should make every possible effort to cover wide areas by increasing the branch network in such a way so as to have more geographical coverage. In the new areas, the banks should make effort to capture the consumers of those areas by providing the products which are suitable and reasonable for them rather than imitated products. This simply means that the banks should indulge themselves in finding out the most important banking needs of the people of the areas where they operate.
- Nepal, being an agricultural country, has most of its population settled in the rural areas and indulged in agricultural practices. So to gain access to the potential banking needs of majority of Nepalese people, the banks should promote their agriculture related financial products like Agricultural financing, micro credit, etc.
- Nepalese economy, to a large extent depends on the remittance income. So, the commercial banks should focus this area by providing products that makes this area more advanced like remittance card, money transfer etc. in the consumer preferred locations.
- For the great mass of uneducated and illiterate people of Nepal, the existing banking procedures are exceedingly complex. Thus the banks are recommended to simplify their banking procedures to gain the favor of most of the rural consumers.
- Government should provide a regulatory framework conducive to the establishment of specialized private retail banking institutions by allowing them to compete effectively for savings and respond to market demands for loan rates.

- Government should play the role of facilitator and regulator in order to help the commercial banks to provide their services to the public in such a way that the interests of government, banks and also the public are maximized.
- The banks should prepare themselves for contingencies in advance so that they are not seriously affected when the government has to impose certain restrictions in their business. For example, if the banks were fully prepared for such emergencies, the recent government restrictions on the Home Loan sector would not have affected their performance to such an extent.

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