

**STRATEGIES AND TREND ANALYSIS OF RETAIL BANKING IN
NEPAL**

(With References to EBL, Nabil and KBL)

A THESIS

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RECOMMENDATION

This is to certify that the thesis:

Submitted By:
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Entitled:
**STRATEGIES AND TREND ANALYSIS OF RETAIL BANKING IN
NEPAL**
(With References to EBL, Nabil and KBL)

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DECLARATION

I hereby declare that the work reported in this thesis entitled **Strategies And Trend Analysis Of Retail Banking In Nepal (With References To EBL, NABIL and KBL)** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision of **Prof. Amuda Shrestha and Dhruba Subedi of Shanker Dev Campus.**

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ABBREVIATIONS

ATM	Automatic Teller Machine
CBS	Central Bureau of Statistics
CIT	Citizen Investment Trust
CPI	Consumer Price Index
CRM	Customer Relationship Management
CV	Coefficient Variance
EBL	Everest Bank Limited
E-Cash	Electronic Cash
EMI	Equal Monthly Installment
FY	Fiscal Year
GDP	Gross Domestic Product
ICICI	Industrial Credit & Investment Cooperation of India Limited
IPO	Initial Public Offering
KBL Ltd.	Kumari Bank Limited Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NG	Nepalese Government
NIDC	Nepal Industrial & Development Capital Markets
NPA	Non Performing Assets
NRB	Nepal Rastra Bank
P.E.	Probable Error
Pos	Point of Scale
S.D.	Standard Deviation
SEBON	Security Exchange Board of Nepal
SN	Serial Number
TU	Tribhuvan University
USAID	United States Agency for International Development

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The economy of Nepal was closed and isolated before 2007 BS. After the establishment of democracy in 2007 BS, Nepal adopted mixed economic policy which continued even after the political change in 2017 BS. 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, transportation and electricity, especially hydroelectricity of which the country has immense potentiality.

For the all-round development of the country, higher economic growth is necessary. Nepal has a policy to attain higher economic growth by broadening and strengthening stability and fiscal discipline which are given emphasis so as to make the economic development process sustainable and sound. It is tried to convert rural areas into the focal point of development through the participatory development and rural empowerment process.

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

1.2 History of Banking in Nepal

In general bank is an institution, which deals in money, receiving it on deposit from customers, honoring customer's drawings the deposit against such deposit on demand,

collecting cheques for customers lending or investing surplus deposit until they are required for repayment. Bank plays the mediator role between the depositor and borrower. Development of the bank history in Nepal likes many other countries, goldsmith, merchants and money lender in the ancient time. Tejrath Adda established in 1880 during the tenure of the then Prime Minister Ranoddip Singh was the first step toward the institutional development of banking in Nepal. Tejrath Adda didn't collect the deposit from the public but gave loans to employees and public against the bullions.

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

Only in 2046 BS after re-establishment of democracy, the government took the liberal policy in a banking sector. As an open policy of Nepalese Government's to get permission to invest in banking sector from private and foreign investor under commercial bank act 2031 BS, different private banks are getting permission to establish with joint venture of other countries. Nowadays, 31 commercial banks are operating in Nepalese financial market.

Today demand for credit has almost reached a plate from the traditional sectors. Consequently, the banking system is over huge with liquidity. This has compelled banks to scrutinize of alternative avenues to display their funds and thus emerged the concept of retail banking.

Retail banking implies executing banking transactions with a large number of customers with relatively low business volume. Today, retail banking is not confined offering standardized product and services. It extends to designing, development and marketing of customized products. In fact retail banking has today become the jewel of the banking industry. It is

undergoing continuous evaluation. The objective of the retail banking is to provide its target market customers a full range of financial products and banking services, giving the customer to one stop window for all his/her banking requirements. The products are backed by world class services and delivered to the customers through the growing branch network as well through alternatively delivery channels likes ATMS, e-banking , ABBS Services and SMS banking.

Retail banking changes the relationship between banks and customers, changing business models, cost relations, customers relations, integration of global financial markets, technology convergence and incessant introduction of new products and services more discerning, demanding and less loyal customers have become the important changed diverse across the globe. The focus of retail banking has thus been constantly evolving. In the early 90s it was “product focus”, in the late 90s it was “sales focus” and by 2000s it become “price focus” and today, it is relationship driven.

1.3 Retail Banking Product

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

Automobiles are the key factors of any nation’s development. After most of the nation adopted liberalized and open economy policy, it has seen that the significance development in

the automobile sectors. Due to media and advertisement campaign of automobile sector, middle class people began to dream to ride car and two-wheeler. Because of low level income, their dream has not come to reality. After resurgence of retail banking, it is mostly preferable segment in the retail bankers. It is less risky and most preferable segment in the customer too. Nepalese banking industry is witnessed in the boost in vehicle loan segment. In vehicle loan they are providing loan to consumers at lower interest and less hurdle as well as low service charge.

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

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

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

A debit card is basically a better way of carrying cash or a check book. It is an electronic card that one can use as a convenient payment mechanism. The card is generally issued by consumers' bank and is connected through the ATM. Debit card allow consumer to spend only what's the consumers' account and purchase should be kept in track of just as if consumer are writing a cheque.

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

1.4 Statement of the Problem

After the introduction of the liberalization policy, many banks, financial institutions and other institutions are established rapidly. These days many commercial banks, development banks and financial institutions are operating their works to assists the process of economic development in the country. Due to the high competition among financial institutions, the

collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. So it raised the problem of investment and proper mobilization activities play vital role in utilization of collected funds and overall development of economy of the nation.

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

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

The problems of the study are:

- a. What is the position of Retail Banking of sample commercial banks?
- b. What is the future prospect of Retail Banking in Nepal?
- c. What problems are being faced by commercial banks and other financial institutions to provide Retail Banking service?
- d. Why the consumers are not getting benefit of the Retail Banking provided by banks and other financial institutions?
- e. What types of Retail Banking products are prescribed by the consumers?

1.5 Objectives of the Study

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

The study has the following objectives:

1. To explore the existing situation of retail banking in Nepal.
2. To analyze the retail banking trend in Nepal.

3. To identify and analyze the problems and prospects of retail banking through the opinion of stakeholders.
4. To provide suggestion and recommendation on the basis of findings of the study.

1.6 Significance of the Study

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

The significances of the study are:

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

1.7 Limitations of the Study

The limitations of the study are:

1. This study is based on secondary as well as primary data. Accuracy depends upon the data collection and provided by the banks.
2. This study has been carried out for the partial fulfillment of the requirement of Master's degree, faculty of management of TU. So time and resources are major limitation of the study.
3. Only three commercial banks among 31 have been selected as sample for study.
4. This study is focused on only three product of retail banking among the many product offered by the banks.

1.8 Organization of the Study

This study has been divided into five chapters which are as follows

Chapter I: Introduction

First chapter i.e. Introduction deals and includes the background of the study, brief profile of the sample companies, statement of the problem, objectives of the study, significance of the study, limitations of the study, and organizations of the study.

Chapter II: Review of the literature

Second chapter deals with the review of available literature. It takes in review of the related books, journals, articles and previous unpublished Masters Degree thesis etc.

Chapter III: Research methodology

Third chapter explains the research methodology used in the study. It includes research design, population and sampling, source of data, method of data analysis and research variables etc.

Chapter IV: Data presentations and analysis

Fourth chapter, the most important chapter of the study, is the presentation and analysis of data as well as the major findings of the study.

Chapter V: Summary, conclusion and recommendation

The fifth and the last chapter cover the summary of the study, the main conclusions that flow from the study and some recommendations as well as suggestions for further improvement. Bibliography and appendix are also including at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

Introduction

The purpose of reviewing the literature is to develop some expertise in one's area to look what new contribution can be made, and to receive some ideas for developing a research design. Their relevant finding issues, arguments and suggestion will give glimpses, guideline to the further depth of the study. In other words there has to be continuity in research. The continuity in research is ensured by linking the present study with the past research studies.

2.1 Conceptual Framework

This section is developed to discuss briefly about the theoretical framework, which are closely related to the research work.

2.1.1 Definition of Retail Banking

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

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

The solution lies to market demands and challenges lies in innovation of new offering with minimum dependence on branches – a multi-channel bank and to eliminate the disadvantage of an inadequate branch network. Generation of leads to cross sell and creating additional revenues with utmost customer satisfaction has become focal point worldwide for the success of a Bank.(Cheney&Moses,1993:398)

2.1.2 Introduction of Retail Banking

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise, and the financial institution deal in small numbers of high value transactions.

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

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

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

2.1.3 Benefits of Retail Banking

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

2.1.4 Scope for Retail Banking in Nepal

- All round increase in economic activity
- Increase in the purchasing power. The rural areas have the large purchasing power at their disposal and this is an opportunity to market Retail Banking.
- Nuclear family concept is gaining much importance which may lead to large savings, large number of banking services to be provided are day- by-day increasing.
- Tax benefits are available for example in case of housing loans the borrower can avail tax benefits for the loan repayment and the interest charged for the loan.

2.1.5 Advantages and Disadvantages of Retail Banking

Advantages

Retail banking has inherent advantages outweighing certain disadvantages. Advantages are analyzed from the resource angle and asset angle.

Resource Side

- Retail deposits are stable and constitute core deposits.
- They are interest insensitive and less bargaining for additional interest.
- They constitute low cost funds for the banks.
- Effective customer relationship management with the retail customers built a strong customer base.
- Retail banking increases the subsidiary business of the banks.

Asset Side

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

Disadvantages

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

2.1.6 Opportunities

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

The combination of above factors promises substantial growth in retail sector, which at present is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention. (Kothari,1995:126)

2.1.7 Challenges to Retail Banking

- The issue of money laundering is very important in retail banking.
- This compels all the banks to consider seriously all the documents which they accept while approving the loans.
- The issue of outsourcing has become very important in recent past because various core activities such as hardware and software maintenance, entire ATM set up and operation (including cash, refilling) etc., are being outsourced by Indian banks.
- Banks are expected to take utmost care to retain the ongoing trust of the public.
- Customer service should be at the end all in retail banking. Someone has rightly said, “It takes months to find a good customer but only seconds to lose one.” Thus, strategy of Knowing Your Customer (KYC) is important. So the banks are required to adopt innovative strategies to meet customer’s needs and requirements in terms of services/products etc.
- The dependency on technology has brought IT departments’ additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. It is equally important that banks should maintain security to the advance level to keep the faith of the customer.
- The efficiency of operations would provide the competitive edge for the success in retail banking in coming years.
- The customer retention is of paramount importance for the profitability of retail banking business, so banks need to retain their customer in order to increase the market share. One of the crucial impediments for the growth of this sector is the acute shortage of manpower talent of this specific nature, a modern banking professional, for a modern banking sector.

(Rose, 1983:379)

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

2.1.8 Strategies for Improving Retail Banking

Constant product innovation and Customer Satisfaction

The customer database available with the banks is the best source of their demographic and financial information and can be used by the banks for targeting certain customer segments

for new or modified product. The banks should come out with new products in the area of securities, mutual funds and insurance.

Service Side

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

Introduction of New Delivery Channels

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

Tapping of Unexploited Potential and Increasing the Volume of Business

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

Infrastructure Outsourcing

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

Detail Market Research

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

Cross-selling of Products

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

Business Process Outsourcing

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

Tie-up Arrangements

Bank concentration can reap the benefit of reaching customers across the country by entering into strategic alliance with other such banks with intensive presence in other regions. In the present regime of falling interest and stiff competition, banks are aware that it is finally the retail banking which will enable them to hold the head above water. Hence, banks should make all out efforts to boost the retail banking by recognizing the needs of the customers. It is essential that banks would be imaginative in predicting the customers' expectations in the ever-changing tastes and environments. It is the innovative and competitive products coupled with high quality care for clients will only hold the key to success in this area. In short, bankers have to run very fast even to stay where they are now. It is the survival of the fastest now and not only survival of the fittest.(Shrestha & Silwal, 2057:389)

2.1.9 Special Features of Retail Credit

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

Strong Credit Assessment Capability

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

Sound Documentation

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

Strong Possessing Capability

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

Regular Constant Follow- up

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

Skilled Human Resource

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

Technological Support

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

2.1.10 Emerging Issues in Handling Retail Banking

Knowing Customer

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

What needs to be done is setting up of a robust data warehouse where from meaningful data on customers, their preferences, there spending patterns, etc. can be mined. Cleansing of

existing data is the first step in this direction. Banks have a long way to go in this regard. (Van Horne, 2002:268)

Technology Issues

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

Banks are on their way to catch up with the technology much required for the success of retail banking efforts. Lack of connectivity, stand alone models, concept of branch customer as against bank customer, lack of convergence amongst available channels, absence of customer profiling, lack of proper decision support systems, etc., are a few deficiencies that are being overcome in a great way. However, the initiatives in this regard should include creating flexible computing architecture amenable to changes and having scalability, a futuristic approach, networking across channels, development of a strong Customer Information Systems (CIS) and adopting Customer Relationship Management (CRM) models for getting a 360 degree view of the customer. (Van Horne, 2002:319)

Organizational Alignment

It is of utmost importance that the culture and practices of an institution support its stated goals. Having decided to take a plunge into retail banking, banks need to have a well defined business strategy based on the competitive of the bank and its potential. Creation of a proper organization structure and business operating models which would facilitate easy work flow are the needs of the hour. The need for building the organizational capacity needed to achieve the desired results cannot be overstated. This would mean a strong commitment at all levels,

intensive training of the rank and file, putting in place a proper incentive scheme, etc. As a part of organizational alignment, there is also the need for setting up of an effective Corporate Marketing Division. Most of the public sector banks have only publicity departments and not marketing setup. A fully fledged marketing department or division would help in evolving a brand strategy, address the issue of alienation from the upwardly mobile, high net worth customer group and improve the recall value of the institution and its products by arresting the trend of getting receded from public memory. The much needed tie-ups with manufacturers/distributors/builders will also facilitated smoothly. It is time to break the myth banks are not customer friendly. The attention is to be diverted to vast databases of customers lying with the banks till unexploited for marketing.

Product Innovation

Product innovation continues to be yet another major challenge. Even though bank after bank is coming out with new products, not all are successful. What is of crucial importance is the need to understand the difference between novelty and innovation? Peter Drucker in his path breaking book: “Management Challenges for the 21st Century” has in fact sounded a word of caution: “innovation that is not in tune with the strategic realities will not work; confusing novelty with innovation (should be avoided), test of innovation is that it creates value; novelty creates only amusement”. The days of selling the products available in the shelves are gone. Banks need to innovate products suiting the needs and requirements of different types of customers. Revisiting the features of the existing products to continue to keep them on demand should not also be lost sight of.(Van Horne,2002:377)

Pricing of Product

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

Process Changes

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

Issues Concerning Human Resources

While technology and product innovation are vital, the soft issues concerning the human capital of the banks are more vital. The corporate initiatives need to focus on bringing around a frontline revolution. Though the changes envisaged are seen at the frontline, the initiatives have to really come from the 'back end'. The top management of banks must be seen as practicing what preaches. The initiatives should aim at improved delivery time and methods of approach. There is an imperative need to create a perception that the banks are market-oriented.

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

Rural Orientation

As of now, action that is taking place on the retail front is by and large confined two metros and cities. There is still a vast market available in rural India, which remains to be trapped.

Multinational Corporations, as manufacturers and distributors, have already taken the lead in showing the way by coming out with exquisite products, packaging and promotions, keeping the rural customer in mind. Washing powders and shampoos in Rs.1 sachet made available through an efficient network and testimony to the determination of the Multi National Companies to penetrate the rural market. In this scenario, banks cannot lack behind.

2.1.11 Some Critical Issues

Customer Service

Customer service is perhaps the most important dimension of retail banking. While most public sector banks offer the same range of service with similar technology/expertise, the level of customer service matters the most in bringing in more business. Perhaps more than the efficiency of service, the approach and attitude towards customers will make the difference. Front line staffs have to be educated in this regard. A scheme of entrusting a group of important customers to the care of each employee/officer with a person to person knowledge and intimacy can be implemented all sundry advices/notices such as Dr. /Cr. advices. TDR maturity advices, etc. whether signed by employees or officers should be identifiable by the name of those signing, and inviting customers to contact them for further assistance in the matter. A customer centered organization has to be built up, whose ultimate goal is to "own" a customer. Focused merchandizing through effective market segmentation is the need of the hour. A first step can be the organization of the various retail branches to enter for different market segments like up market individuals, traders, common customers, etc. For the Private Sector Banks, the focus should be on identifying efficient units and allocations of loans to these units. These banks should try Merchant Banking services a small scale. With agricultural output growing at a fast rate and mechanization setting in, banks should try to cater to the credit needs of the people involved in this profession. A wide network is absolutely imperative for this sector. Separate branches/divisions should be opened for traders and similar government businesses. Special facilities for cash tendered in bulk and immediate issue of drafts, by extending facilities like "guarantee bond" system, will go a long way in mitigating problems faced by traders who are the major customers for drafts issue. Provision for cash counting machines in these branches will reduce the monotony of cashiers and unnecessary delays, thus resulting in better productivity and ultimately in improved customer service. The personal segment is however the most important one. With the urban segment moving away because of disintermediation and competition from foreign banks, retail banks should focus on the rural/semi-urban areas that hold the maximum

potential. Innovative schemes like "paper-gold" schemes can be introduced. In the urban areas, private banking to affluent customers can be introduced, through which advisory and execution services could be provided for a fee. Foreign currency denominated accounts can also be introduced for them. Nationalized banks compare very poorly with the foreign banks when it comes to the efficiency in services. In order to improve the speed of service the bank should.

- Improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast.
- Make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.(Gautam, 1990:439)

Technology

In the current scenario, the importance of technology cannot be understated for retail banks which entail large volumes, large queues and paperwork. But most of the banks are burdened with a large staff strength which cannot be done away with. Besides, in the rural and semi-urban areas, customers will not be at home in an automated, impersonal environment. The objective would be to ensure faster and easier customer service and more usable information, instantly, economically and easily to all those who need it -customers as well as employees. Proper management information systems can also be implemented to aid in superior decision making. Communication technology is especially needed for money transfer between the same city and also between cities. There are inordinate delays in Nepal because of geographical and other factors. Modern technology can make it possible to clear any check anywhere within a day. Installation of software facilities at all the big branches will facilitate speedy transfer of payment advices. Computerization will be of great help in improving back-office operations. At present, all of the private sector banks of rural branches can have PCs. These can be used for quick retrieval and report generation. This will also drastically reduce the time bank staffs spend in filling and filing returns. Housekeeping operations can also be speeded up.(Gautam,1990:319)

Price Building

Price bundling is a selling arrangement where several different products are explicitly marketed together to a price that is dependent on the offer. As banks are multi-product firms this strategy is more applicable to retail banking. Price bundling offers several economic and strategic benefits to a bank. It offers economies of, utilization of the existing capacities and reaching wider population of customers. Bank can get the benefits of information and

transacting. In the process of extending variety of services, banks are acquiring enormous amount of customer information. If this information is systematically stored, banks can efficiently utilize this information in order to explore new segments and to cross-sell new services to these segments. Cross-selling opportunities and larger customer base can also be the motive for merger against usually stated advantage of cost savings. Price bundling can be used in order to lengthen the relationship with a customer. It will reduce the need of resources to be put on acquiring new customers and saves time of the bank. Among the strategic benefits, price bundling may cause less aggressive competition; it differentiates its products compared to rivals in the same market where the products are sold individually or in other kinds of bundles.

2.1.12 Bank Lending Policy

Banks are expected to support their local communities with an adequate supply of credit for all the intimate business and consumers financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed making loans is the principal economic function of banks to find consumption and investment spending by businesses, individuals and units of government. How well a bank performs its lending function has a great deal to do with the economic health of the region, because loans “Support the growth of new businesses and jobs within the bank’s trade territory and promote economy vitality.” Moreover, banks loans often seems to convey positive information to the market place about a borrower credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources. (Rose, 1983:52)

2.1.13 Types of Loans Made by Banks

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

- a. Real estate Loans, which are secured by real property land, building and other structures, which includes short term loans for construction and land development and long term loan to finance the purchase of farmland, homes payments, commercial structures, and foreign properties.
- b. Financial Institution Loan, include credit to banks, insurance companies, financial companies and other financial institutions.

- c. Agricultural Loans, extended to farm and ranch opportunities to assist in planting and harvesting crops and to support the feeding and care of livestock.
- d. Commercial and Industrial Loan, granted to businesses to cover such expenses as purchasing inventories, paying taxes and meeting payrolls. (Rose, 1983:54)

2.1.14 Retail Banking Product

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

A. Home Loans

A host of factors, such as number of dual income families, high salaried employees with high purchasing and borrowing powers, phenomenal growth of the information technology sector, attractive tax sops for housing loans, desire to say new house etc, have contributed to the optimism in the housing sector. Investing in housing has always on top priority for most of 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 development of funds by banks. Home loans of course, have been the fastest growing loans segment of banks in Nepal in the past few years. It is estimated to be growing at around 50% per annum. The housing finance players are dropping interest rate/fees and undercutting each other, due to the reason that they find ways to deploy the low cost fund mobilized, in their pursuit of aggressive growth.

B. Auto Loan

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

C. Personal Loans

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

D. Education Loans

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

E. Credit Card

Credit cards that identifies its owner as one who is entitled to credit when purchasing goods or services from certain establishment. Credit cards originated in the United States in the 1930s, their use was wide spread by the 1950s. Consumer behavior has been radically altered by the power of plastic money. A credit card has endowed the middle class with the power to acquire their dream objectives, which are beyond their normal means. The emergence of plastic money or credit cards in Nepal has ushered in the era of convenience and security,

apart from opening up new vistas of effective demand. A credit cardholder gets many benefits like free credit period, discount in travel expenses, quick loan processing and free gift. Besides members can get free health insurance and checkups. The comfort that these credit cards provide in terms of payment for shopping bills, electricity bills, phone bills, travel tickets and even petrol bills is enormous. It offers the convenience of immediate payment even with no cash in hands, future growth in transaction depends on the creation of more transactions at the point of sale centers.

F. Debit Card

A debit card is basically a better way of carrying cash or a check book. It is an electronic card that one can use as a convenient payment mechanism. The card is generally issued by consumers' bank and is connected through the ATM. Debit card allow consumer to spend only what's the consumers' account and purchase should be kept in track of just as if consumer are writing a cheque.

G. Innovative Banking

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

2.1.15 Resurgence of Retail Banking

2.1.15.1 A Paradigm Shift from Corporate Banking

The economic slowdown and poor industrial growth have reduced demand for loans and their stiff competition in the corporate loans market due to continuous fall in interest rates. The corporate lending scene has also undergone radical change in the recent years. There are few opportunities in the wholesale segment, which is the corporate lending market. Competition has made it unviable to lend to above the yield on government securities. Volatility has been

wide with corporate preferring to tap global markets for funds. This has left only second rung corporate available for lending by domestic banks. While it increases the threats of NPAs, the fact also remains that there are too many bank chasing too few corporation with good rating status. And retail finance market is more profitable than corporate banking business since, retail customers are less credit averse and more open to acquire assets through the credit route.(Shrestha,1981:219)

2.1.15.2 Differential Interest Rate

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

2.1.15.3 Increase Middle Class Demand

Despite the slowdown in the economy, the purchasing power continued to be strong due to consumerism among the middle class in on the increase. As increasing number of products and service on credit, and the rapidly growing middle class with bias toward consumerism are the key drivers for the growth in the retail banking. Increase middle income segment opening up of the economy awareness and sophistication in urban and semi urban households for whom convenience, security and status are important, contributed to higher demand for retail banking (The Professional banker, June 2004:41). The consumer are sensitive to the impact of any purchase on the household budget and will postpone till they have saved the actual money required. To counter this bank should shift their loan portfolio to grab these customers.

2.1.15.4 Liquidity Position of the Bank

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

2.1.15.5 Availability of Better Spread to Banks

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

Risk Diversification

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

Technological Innovation

Today's world is technology driven. Most of the government offices, company, service organization and other profitable and non profitable organization are technology savvy. In this scenario, banks are not exception. Due to technological development, bank can spread not only in the national boundaries but also in international presence. They are able to reduce their expenses and provide innovative product to the customers. So they must go to retail segment to grab the large customer beyond traditional banking system.

2.1.16 Present Status of Retail Banking in Nepal

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

banking. In the present competitive banking environment, differentiated products are effective method of gaining competitive advantage.

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

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

Consumer financing encompasses extension of loans for consumer durable goods, education loans, housing loans, auto loan etc. Demand for loans for acquisition of TV, fridge, washing machine, air condition etc, is on the rise. Banks also offer loans through tie-ups with manufacturer or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income levels of the people availability of finance for second hand cars. In fact on account of liberal financing by banks, import of passenger car, motorcycles and scooters, has registered good growth.

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

2.1.17 Features of Sound Lending and Investment Policy

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

required features of sound lending policy and investment policies are explained as below.(Shrestha&Silwal 2057:320)

Safety and Security

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

Where,

M= Marketability

A = Ascertain ability

S = Stability

T = Transferability

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

Profitability

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

Purpose of Loan

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

Legality

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

Tangibility

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

Diversification

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

2.1.18 Consumer Lending and Borrowing

Among the most important of all financial markets are the markets providing saving instruments and credit to individuals and families. Many financial analyses have referred to the period since World War II as the age of consumer finance. Moreover, the market for consumer financial services in the one market that everyone, regardless of profession or social status, will enter at one time or another during his or her lifetime. (Rose, 1997:553)

2.1.18.1 Consumers as Lenders of Funds

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

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

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

2.1.18.2 Categories of Consumer Borrowing

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

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

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

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

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

2.1.18.3 Home Equity Loans

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

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

Home equity credit is proved to be especially attractive to consumer lending institutions for a variety of reasons. These loans tend to have lower rates of default because borrowers tend to feel more responsible when their home is pledged as collateral and that collateral tends to have a more stable value. Moreover the cost of making home equity is substantially lower than the cost of the series of short-term loans made to the same customer. In addition, these loans

usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build a working relationship with the customer better than most other types of consumer loans, creating more opportunities for the lender to sell that customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most home equity credit lines are revolving credits. However, if the borrower cannot make the loan payment his or her home may be repossessed and sold to pay back to the lender. Many financial experts recommended that consumer use home equity credit with caution, particularly when their future employment prospects are uncertain. (Rose, 1975:560)

2.1.18.4 Credit and Debit Cards

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

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

2.1.19 Consumer Lending Institution

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

2.1.19.1 Commercial Banks

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

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

2.1.19.2 Finance Companies

Finance companies have a long history of lending in the consumer installment field providing funds directly to consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These active household lenders provide auto loan and credit for home improvements and for the purchase of appliances and

furniture. Finance companies often face state imposed legal limits of the interest rates they can charge for household loans and on maximum loan size.

2.1.19.3 Other Consumer Lending Institutions

Other Consumer Lending Institution includes credit unions, saving and loan association and saving banks. Credit union make a wide variety of loans for such diverse purpose as purchase of automobiles, home repair and more recently mortgage credit for the purchase of new homes. Also important in the consumer loan field in recent years have been savings and loan and saving banks, which experienced dramatic growth and even decline due to inadequate capital and the public's fears about the long run soundness of some of these institutions.

Although these institutions have long been dominant in residential mortgage lending, they have moved aggressively to expand their portfolios of credit card, education, home improvement furniture, appliance and mobile home loans over the past decade. (Rose, 1997:563)

2.2 Review of Related Studies

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

2.2.1 Review of Articles

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

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

Wholesale banking is characterized by a narrow client base but large size of transactions per customer. Large size of deposits and loans from few customers result in low cost of processing and encourages bank have to lower spreads. On the other hand, retail banking deals with large number of customers with low value of transactions. As the processing cost is high in retail banking, higher interest spread is maintained in the transaction.

Retail banking requires a moderate level of customer relation. While most of the banks offer the same range of service with similar technology, the level of customer service matters the most in bringing in more business. Dedicated, highly professional junior and middle management supported by senior management could contribute to the success of retail banking. In retail banking, each product to be offered to the customer needs to be well defined, easily serviceable and potentially profitable.

While information technology has contributed to major upheaval wholesale banking, its impact on retail banking has been relatively limited. Corporate clients are more familiar with automated environments, which will facilitate more automation and creation of paperless office. Technology based delivery channels such as Automatic Teller Machines (ATMs) did not fundamentally change competitive position among banks, based on the density of traditional branch networks. So far, internet banking has not modified the relationship. While the number of banks with internet sites and offering internet based services is growing rapidly, it represents a limited portion of banking transactions.

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

While a few banks specialize in wholesale banking or retail banking, there is no longer a complete separate wholesale or retail banking in Nepal. Most of the banks combine retail and wholesale banking operation. Some of the banks have separate division or unit dealing corporate customers. The skill and knowledge required carrying out the wholesale and retail

banking business are different. However, there are some common critical success factors such as customer orientation, investment in technology etc. In the competitive environment the banks need to reorient and equip themselves with modern techniques of banking to face the increasing competition.

Banks are now trying to reduce their risks by diversifying their portfolio and having a thrust on short term retail earning rather than blocking funds in riskier medium and long term loans. Some banks developed customer finance and housing finance product to attract rich middle class people and the people having fixed source of income and increasing lending business.

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 offices and the branches to ensure that decisions are communicated fast, and make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

While information technology has contributed to major upheaval in wholesale banking, its impact on retail banking has been relatively limited. Corporate clients are more familiar with automated environments, which will facilitate more automation and creation of paperless office. Technology based delivery channels such as Automatic Teller Machines (ATM) did not fundamentally change competitive position among banks, based on the density of traditional branch networks. So far, internet banking has not modified this relationship.

Retail banking was viewed primarily as a cost centre and source of low cost deposit. But, this day, retail banking represents a major source of competitive strength for a banking industry, as it is a point of direct customer contact. Retail services are uniquely positioned to help banks develop strong long term 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 with poor credit off takes.

Consumer financing encompasses extension of loans for customer durable goods, education loans, finance for travel, medical expenses etc. Demand for loans for acquisition of TV, fridge, washing machine. Air conditioners etc., is on the rise. Banks also offer loans through

tie ups with manufacture or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income level of the people, and availability of finance for even second hand cars. In fact o account of liberal financing by banks, import of passenger cars, motorcycles and scooters, has registered good growth. (Sources: Lending Operation of Commercial Banks of Nepal and its Impact on GDP. (www.nepalnews.com))

2.2.2 Review of Previous Research

There are very few thesis and research work of the same kind in Nepal. The review and extract from them are presented below.

Bhattarai (2006) in her thesis entitled, “*Lending Policy of Commercial Banks in Nepal*” has made an effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hapless economic development of the people and the country. So, she recommended that banks should give emphasis on efficient utilization of resources.

The Main Objective:

- To calculate necessary financial ratios.
- To compare the same type of ratios between NABIL and SCBL during the study period.
- To find out the discrepancies if any.
- To offer a package of suggestions to improve their financial performance.

The Research Methodologies are as Follows:

Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. Financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The Main Major Findings:

- The bank has utilized its assets to generate more interest earning. So, the interest is in good position.
- From the analysis of net profit to total assets, it is found that the bank is able to earn satisfactory income from the utilizing its assets.
- It was also concluded that interest rate on deposit and inflation rate is negative.
- The interest rate on lending and inflation rate has high degree of negative correlation coefficient.

Pardhan (2007) in his thesis entitled, *“A Study on Investment Policy of Nepal Bank Limited”* has emphasized that there is a greater relationship between deposits and loans and advances. He concluded that through loan and advance as well as deposit in increasing trend, there increase is not a proportionate manner. Immense increase in deposit had led to little increase in loan and advances due to the increase in interest rates. His recommendation was to great loan and advances without lengthy process. He has suggested enhancing banking transactions up to rural sector of the country.

The Main Objectives:

- The contribution of auto loan in total loan and advance by all the banks are in increasing trend in amount. But Nabil bank has shown the best performance having highest amount.
- But in contribution in loan and advance EBL and KBL shows the better performance than Nabil. Again the average growth rate of Auto loan for EBL and KBL is comparatively better than Nabil.

The Research Methodologies are as follows:

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

The Major Findings:

- The bank is paying interest to the deposit amount at the same time it also collect a good amount of interest from the loan and advances.
- The image of a firm is its good in the market. The good will of the firm is very good.
- The substitution effect doesn't hold true for all the samples taken.
- The interest rate on both deposit and lending of all sample banks are found to be in decreasing trends.
- Analysis of sample banks shows that there exists negative relation between lending amount and lending rate

Joshi (2008) in his thesis entitled, "*Lending Policy of Commercial Banks in Nepal.*" concludes that commercial banks have collected such resources from people but they are far behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

The Main Objectives:

- To study about the present position of the Nabil Bank.
- To analyze the financial strengths and weaknesses of Nabil Bank.
- To analyze the financial performance of retail Nabil Bank.

His Research Methodologies are as Follows:

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

The Major Findings:

- This study tried to analyze the existing situation of retail banking in Nepal based on the data provided by the financial statement as well as other concerned information.

- Analysis of sample banks shows that interest rates on lending are far higher than deposit rates. The research is analyzed by using different types of tools. For this study following statistical tools and financial tools are use such as Loans and advances to Total Risk, Weighted Assets Ratio, Non-performing Loan to Total Loans and advances Ratio, Loan Loss Provision to Retail banking Performing, Loan Ratio Loan Loss Provision to Total Loans and Advances, Arithmetic mean, standard Deviation, Correlation Coefficient, Probable Error,
- Analysis of samples banks concludes that interest rate on deposit is to be found so low which does not attract the depositor.

Khatiwada (2009) in his thesis entitled, “*Retail Banking an Emerging Trend in India*” has made an effort on analyzing the trend of retail banking product offered by Indian Commercial Banks and evaluating the contribution in Indian economy. He concluded that there is highly positive correlation co-efficient and co-efficient of determination of above 90% between per capita GDP and retail banking indicated the direct relationship between them. When Rs. One per capita GDP increase, the retail banking player can enhance its retail banking segment and housing finance segment by Rs.3.26 core and Rs.1.36 core respectively. He finds that the retail banking segment has much low level of NPA then banking industry’s NPA. Housing finance segment of the retail banking is the most lending segment. This segment contributes to retail banking by more than 40%. He suggests that there is tremendous upward potential in the segment. The future retail banking is dependent on technology facilities reduction in transaction cost and provides the ability to do business involutes. New kinds of management skill are required to manage the retail lending portfolio.

The Main Objectives:

- To analyze the repayment position of the priority sectors.
- To find trends of priority sectors loan.
- To analyze how far Nepal Bank Ltd. has been able to grant credit to priority sectors.
- To examine the impact of loan on priority sectors.

His Research Methodologies are as Follows:

The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, Probable Error

and Regression Analysis and financial tools Earnings per Share, Price Earnings Ratio, Return on Total Assets and Return on Share are also use.

The Main Major Findings

- Most of the respondents agree that the low interest rate is the most motivating factor to get the loan in the market.
- Majority of the respondents showed their agreement that the retail banking helps
- To identify the effect of inflation on interest rate charged and offered by various Nepalese financial institutions. In his thesis the data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis
- To identify the different methods used by Nepalese financial institutions to calculate interest on lending.
- The research is analyzed by using different types of tools such as statistical tools and financial tools i.e. Landing auto loan, Return on Total Assets Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient, Probable Error and Regression Analysis.

Pant (2010) in his thesis entitled, "*A Study of Commercial Banks Deposit and its Utilization*" has made an attempt to highlight the discrepancy between resource collection and research utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposit.

The Main Objective:

- To examine the financial statement of the bank.
- To analyze liquidity, turnover and profitability ratios of the bank.
- To evaluate the future retail banking.

His Research Methodologies are as Follows:

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

The Major Findings:

- It indicates that the margin for safety for customers has not been maintained satisfactorily.
- Lower investment means lower capital formation that hapless economic development of the people and the country
- The correlation analysis between lending rate and lending amount of all sample banks under study comes highly negative.
- This relation between two variables (lending rate and lending amount) of sample banks matches with the theory which says with the increase in lending rate, lending amount decreases and vice-versa. Hence she concluded that lending rate is the most important determinant of loan and advances of all commercial banks. This makes clear that borrower's seem more interest conscious.
- The research, data are analyzed by using different types of tools. For this study following statistical tools Arithmetic mean, Standard Deviation, Correlation Coefficient, and Probable Error.

Pokhrel (2011) on his thesis entitled, *“A comparative study on financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd.”* was concluded to analyzes, examine an interpret the financial performance of NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuation in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio.

His Main Objectives are as Follows:

- To analyze the impact of financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd

- To identify and analyze the financial performance of Nepal Bangladesh bank Ltd and Everest Bank Ltd

His Research Methodologies are as Follows:

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

His Major Findings are as Follows:

- Therefore, there should be the awareness program, regularly conducted in terms of seminars
- Workshop from well experienced personnel such as top executives from banks and concerned regulating authorities.
- They should introduce novel technology and equipment's to collect deposit.
- His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan and advances.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

Bakhati (2012) in his thesis entitled, *“A Comparative Study on Housing Finance of Everest Bank, Nepal Bangladesh Bank and Kumari Bank Limited”* concludes that the proportion of housing loan in total loan and advance for all the banks under study is in increasing trend. Among the sample banks, EBL has disbursed higher amount for housing loan. EBL is the pioneer bank in Nepal which initiates the housing loan scheme in Nepal. He suggests that the growth of housing loan is depends upon interest rate, so the sample banks are requested to lower down the interest rate and make the procedure of getting loan easy.

The Main Objectives:

- To study the analysis of Retail Landing in market
- To study the liquidity, efficiency of assets management and profitability position.

- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

His Research Methodologies are as Follows:

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

The Major Findings:

- Deposit rates of all sample banks under study are in decreasing trend; meaning that every year deposit rates of sample banks under study have decreased.
- Lending rates of all sample banks under study are also in decreasing trend; means that every year lending rates of sample banks under study have decreased.
- The competition in retail banking, banks will need to operate efficiently, package and delivery products on time, leveraging the multiple channels of delivery such as internet banking, mobile banking, mobile cash and ATMs.
- The future of retail banking is dependent on technology, marketing and capital employment on the sector.
- Bank should effort to increase to cover the wide areas by increasing the branch network as well as more geographical coverage.

2.3 Research Gap

Today, retail banking is one of the important means of funds utilization in commercial banks. For Nepal, it is extremely new and emerging concept. In the last few years some Nepalese banks are adopting the retail banking concept to grab the high and middle level consumer of urban areas and sustain the bank's profitability. Retail banking is the new topic for the Nepalese researchers. Very few researches have been conducted under this topic. The research has been carried on Indian context but in Nepalese context, only research related to

home loan has been done. The researcher could not find any systematic study carried out on this topic in Nepalese context. This study covers the current scenario of home loan, auto loan and personal loan in Nepalese context.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

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

3.2 Population and Sample

For selecting the samples out of 31 commercial banks, 3 customer friendly retail banking player banks are selected. They are as follows.

- Nabil Bank Limited.
- Kumari Bank Limited
- Everest Bank Limited

3.3 Source of Data

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

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

3.4 Data Collection Techniques

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

3.5 Data Processing and Presentation

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

3.6 Data Analysis Tools

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

3.6.1 Secondary Data Analysis Tools

Statistical Tools

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

Correlation Co-efficient (r)

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is nearly related to other variables. It is calculated to measure the degree of association between two variables. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. Correlation coefficient describes not only the magnitude of the correlation but also its direction.

Coefficient of Determination (r^2)

The square of simple correlation coefficient is called coefficient of determination. It explains to what extent the variation of a dependent variable is expressed by the independent variable. A high value of coefficient of determination shows a good listed relationship between the two variables. If the value of coefficients or correlation, $r = 0.9$, then the coefficient of determination, $r^2 = 0.81$, which means that 81% of the total variation in the value of the dependent variable has been explained by the change in the value of independent variable. It

is much easier to understand the meaning of r^2 than r and therefore, coefficient of determination is preferred while presenting the result of correlation analyses.

Probable Error

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follow:

$$P.E = .06745 \frac{1-r^2}{\sqrt{N}}$$

Here, r = Correlation coefficient, N =Number of pairs of observation

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of 'r' is significant.

Time Series Analysis (Trend Analysis)

Time series is used to measures the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis.

The straight line trend of series of data is represented by formula:

$$Y=a+bX$$

Here, Y is the dependent variable, 'a' is Y intercept or value of Y when $x=0$, 'b' is the slope of the trend line or amount of changes that comes in Y for a unit change in X . Where, Y = Trend Value, a = Y intercept, b = slope of trend line, X = Time variable.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Retail banking is when a bank executes transactions directly with consumers, rather than corporations or other banks. Services offered include savings and accounts, mortgages, personal loans, debit cards, and credit cards. The term is generally used to distinguish these banking services from investment banking, commercial banking or wholesale banking. It may also be used to refer to a division of a bank dealing with retail customers and can also be termed as Personal Banking services.

In the US the term Commercial bank is used for a normal bank to distinguish it from an investment bank. After the great depression, through the Glass–Steagall Act, the U.S. Congress required that banks only engage in banking activities, whereas investment banks were limited to capital markets activities. This separation was repealed in the 1990s. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public (retail banking).

Typical products offered by a retail bank includes Transactional accounts, Checking accounts (American English), Current accounts (British English), Savings accounts, Debit cards, ATM cards, Credit cards, Traveler's cheques, Mortgages, Home equity loans, Personal loans and Certificates of deposit/Term deposits

Many commercial banks, development banks and financial institutions are operating in the economy to assist in the process of economic development of the country. Due to high competition between the financial institutions, the collected high amount of deposit from public is not properly invested. It is due to lack of demand for fund. So, it raised the problems of investment and proper mobilization of activities which play a vital role in the overall development of economy of a nation. Traditional lending to the corporate are slow moving along with high NPA risk, treasure profit are now loosing importance hence Retail Banking is

now an alternative market segment having a large number of varied classes of customers. Retail Banking focuses on individual and small units.

This study "*Retail banking of the Commercial Banks in Nepal*" is primarily prepared for the partial fulfillment of the requirements of master of business studies (MBS). This study is mainly based on primary and secondary data provided by the concerned banks and respondents. The primary data is collected by using questionnaire to bank officials, depositor and academician. The secondary data, which include published annual report, other publication of bank, newspaper and different website. Among the 31 listed commercial banks three commercial banks have been selected: Everest Bank, Nabil Bank and Kumari Bank as the sample. The main objective of the study is to find out position and trends of retail banking in Nepal. Most of the listed commercial banks are of similar nature and taken to the sample similar nature banks are both providing same types of services to the customers. Information is collected during the period 2008/09 to 2012/13. The study has been divided into five chapters which include introduction, review of literature, research methodology, presentation and analysis of data, summary conclusion and recommendation. The collected data have been analyzed by using various financial tools and statistical tools like correlation coefficient, coefficient of determination and regression equation etc. The collected information is analyzed and conclusion is drawn from the study.

5.2 Conclusion

This study "*Retail Banking of the Commercial Banks in Nepal*" tried to analyze the existing situation of retail banking in Nepal based on the data provided by the financial statement as well as other concerned information. Present study is successful to explore the findings of the result designed. For the study, various statistical tools were used as requirements of nature of data. The secondary as well as primary source of information was used for the analysis of the data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows. From this study, the researcher concludes that retail banking trend in Nepal is continuously increasing. Retail banking has started to play an important role in Nepal.

In response to this there have been active efforts within the Nepalese banks to be more focused on consumer financial product and services. As the perception of retail banking is still quite low in Nepal, there is tremendous upward potential in this segment.

Again, researcher found that the Nepalese banks need to remain in the competition in retail banking, banks will need to operate efficiently, package and delivery products on time, leveraging the multiple channels of delivery such as internet banking, mobile banking, mobile cash and ATMs.

The future of retail banking is dependent on technology, marketing and capital employment on the sector. Technology facilities reduction in transaction cost and provides the ability to do business in volumes.

Banks have to prepare themselves to face soft interest regime. New kinds of management skills are required to manage the retail lending portfolio. Banks are competing in the retail banking area on the basis of product innovation, rationalization of service charges, competitive pricing and simplified procedures for documentation.

5.3 Recommendations

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

- Among the three sample banks, EBL leading in Home loan and personal loan but in Auto loan its lack behind the Nabil Bank. There is vast difference in the average growth rate of Auto loan in EBL and Nabil bank. To maximizes or stabilize the growth rate of sample banks, it is recommended that Government should provide a regulatory climate conducive to the establishment of private specialization retail banking institutions by allowing them to compete effectively for savings and respond to market demands for loan rates.
- Study shows that Everest Bank and Nabil Bank have disbursed large amount of fund for home loan. However, Kumari Bank has disbursed comparatively low amount in home loan. So it is suggested them to increase the disbursement of loan amount in retail banking product: home loan for the mutual benefit for bank and customer.

- After compiling the primary data it is found factor that hindering the growth of retail bank is its interest rate. So the banks are requested to lower down the interest rate.
- Other than home loan, personal loan and auto loan there are innovative products available under the retail banking. For that bank should investigate for increasing lending opportunities by adopting new strategies and the bank should be innovation of product which is match the requirements of the customer segments such as remittance, credit card and so on.
- Only 42 % of stakeholder are using Retail Banking product and rest are not in use of this product. Therefore , promotion and advertisement campaign on Retail banking product should be highlighted properly so that people become aware of it and uses more and more services in low cost as well.
- Bank should effort to increase to cover the wide areas by increasing the branch network as well as more geographical coverage. In the new area, bank should make effort to tap these area consumers by providing the product suitable and reasonable for them rather than imitated product.
- Trends of Home loan, personal loan and auto loan are in increasing trends in all three selected sample bank. It is fact that Nepalese economy is depending on the remittance income. So, bank should focus this area by providing products like remittance card, money transfer and also providing the foreign employment loan etc.
- The procedure to get loan is quite tedious and lengthy. So it is suggested to make the procedure simple and easy.

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