# CHAPTER-I

# INTRODUCTION

## 1.1 General Background of the Study

After the establishment of multiparty political system in 2046 BS, Nepal pursued liberal, open and market oriented economy. Foreign direct investment is promoted in almost all sector/sub-sector of the economy, including the development, operation and management of infrastructure like road, transport and electricity, especially hydroelectricity, of which the country has immerse potentiality.

For all round development of the country, a higher economic growth is necessary. Nepal has a policy to obtain higher economic growth by broadening and strengthening stability and fiscal discipline is 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. Main features of Nepalese economy are A poor and agro based economy, Landlocked, mountainous and developing nation, Mixed economy policy, High rate of population growth, Low rate of capital investment, Rich in water and natural resources, Unequal distribution of natural income.

For the development of country, financial institution is considered as the catalyst to economic growth of a country. Banking is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprise. Commercial banks are the heart of the financial system. They hold the deposit of 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 a nation is very important to the functioning of its economy.

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

Only in 2046 BS after re-established of democracy, the government took the liberal policy in banking sector. As an open policy of NG'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 there are 32 commercial banks operating in Nepal financial markets.

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 products 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 evolution. The objectives of the retail bank 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 as through alternatively delivery channels like ATMS, Net Banking and Mobile Banking.

Retail Banking has changed the relationship between banks and customers, changing business models, cost relations, customers relations, integration of global financial markets, technology convergence and incessant introduction of new products and service more discerning, demanding and less loyal customers have become the important changed diverse across the globe. 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.

## 1.2 Brief Profile of Sample Banks

**Everest Bank Limited (EBL)**

Everest Bank Limited is joint venture with Punjab National Bank (PNB) India was established in 1994 (2051B.S). The bank started operation in first of kartik 2051. The head office is situated in Lazimpat, Kathmandu. This bank has 47 branches in different parts of the country.

The bank has an authorized capital of Rs 2000 million, issued capital of Rs 1218.40 million and paid up capital Rs 1279.60 million. The present configuration consist of 50% Nepalese promoter, 30% general public & 20%Punjab National Bank. Following activities & service are provided by EBL are Tele Banking, Credit card facility, Locker facility, Foreign exchange,

Remittance, ATM facility and this bank is awarded as Bank of the year in 2066.

**Himalayan Bank Limited (HBL)**

Himalayan Bank Limited is a joint venture with Habib bank of Pakistan and started its operation in 2049 B.S. This is the first joint venture bank managed by Nepali chief executive. It does not include government ownership. It is established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce for providing the banking services to the people and country. It holds of a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns t the stakeholders of the bank. It provides various services and facilities such as Tele-Banking, 24 hours banking, Credit card facilities, Automated Teller Machine (ATM), Visa card, Letter of credit services, Safe deposit locker and foreign currency transactions, etc.

## 1.3    Statement of the Problem

When government introduced the liberalization policy many banks, financial institution and other institution are established rapidly. These days many commercial banks, development banks and financial institution are operating their works to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. So it raised the problems of investment and proper mobilization activities play vital role in utilization of collected funds and overall development of economy of the nation is 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 the one bank to another but there is no optimum utilization of shareholders fund to have greater return in any bank. NRB has also played significant role to make commercial bank mobilize their fund is good sector for this purpose. NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of commercial bank has been successful to earn 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 commercial banks is to earn more profit, they want to disburse the deposit on loans and advance on different sectors. These days, most of commercial banks are moving towards to the retail banking. Bank has to take minimum risk while making retail banking the bank have been facing various problems while providing retail service.

The present problems related to the retail banking are:

- What is the position of retail banking of sample commercial bank?
- What is the future prospect of retail banking in Nepal?
- What problems are being faced by commercial bank to providing retail banking service?
- Why are the consumers not getting benefit of the retail banking that provided by bank?
- What type of major retail banking products are prescribed by consumer?

## 1.4    Objectives of the Study

The objectives neof this study are to analyze the following points:

- To examine the existing situation of retail banking in Nepal.
- To analyze the retail banking trend in Nepal.

- To identify and analyze the problem and prospects of retail banking through the opinion of stakeholders.
- To analyze the SWOT of sample banks.

## 1.5    Significance of the Study

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

The Significance of the study can be written as the following manner:

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

## 1.6    Limitations of the Study

For the completion of this study, some facts are to be considered as the limitation. These are presented as below.

- This study is based on secondary as well as primary data. Accuracy depends upon the data collection and provided by the banks.

- This study has been carried out for the partial fulfillment of master's degree faculty of management of TU. So the time and resources are major limitation of the study.
- Only two commercial banks among 32 have been selected as sample for the study.
- This study is focused on only three product of retail banking among the many product offered by banks.

## 1.7    Organization of the Study

The study has been organized into five chapters each devoted to some aspects of the study of the retail banking in Nepal. The chapters one to five consist of introduction, review of literature, research methodology, presentation and analysis of the data & summary, conclusions and recommendations. To follow the simple research methodology, it is rational behind this kind of organization of the study as:

**Chapter - I: Introduction**

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

**Chapter - II: Review of Literature**

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

**Chapter - III:  Research Methodology**

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

**Chapter - IV:  Presentation and Analysis of Data**

This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of different financial & statistical tools. In this chapter we explained the major findings of the study.

**Chapter - V:  Summary, Conclusion and Recommendations**

It contains the summary of the study, conclusion recommendation and suggestion on the basis of the study.

# CHAPTER-II

# REVIEW OF LITERATURE

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

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 (Besley, 1987:98).

## 2.1.1  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 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

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Related ancillary services include credit cards, or depository services. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise, and the financial institution deal in small numbers of high value transactions (Bhandari, 2005:67).

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

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

- Multiple products (deposits, credit cards, insurance, investments and securities)

- Multiple channels of distribution (call center, branch, and internet)

- Multiple customer groups (consumer, small business, and corporate).

### 2.1.2 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 (Bhandari, 2005:82).

### 2.1.3 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.

## 2.1.4 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.

## 2.1.5 Opportunities

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

The combination of above factors promises substantial growth in retail sector, which at present is in the nascent stage. Due to bundling of services and delivery channels, the areas of potential conflicts of interest tend to increase in universal banks and financial conglomerates. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion,

responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

## 2.1.6 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 important for the profitability if retail banking business, so banks need to retain their customer in

order to increase the market share one of the crucial impediments for the growth of this sector is the acute shortage of manpower talent of this specific nature, a modern banking professional, for a modern banking sector.

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

## 2.1.7    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 second-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 scan 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 (Kothari,1995:34).

## 2.1.8  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.

## 2.1.9  Emerging Issues in Handling Retail Banking

**Know Your Customer (KYC)**

'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.

**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 (Bhole, 1982:125).

Banks are on their way to catch up with the technology much required for the success of retail banking efforts. Lack of connectivity, stand alone models, concept of branch customer as against bank customer, lack of convergence amongst available channels, absence of customer profiling, lack of proper decision support systems, etc., are a few deficiencies that are being overcome in a great way. However, the initiatives in this regard should include creating flexible computing architecture amenable to changes and having scalability, a

futuristic approach, networking across channels, development of a strong Customer Information Systems (CIS) and adopting Customer Relationship Management (CRM) models for getting a 360 degree view of the customer.

**Organizational Alignment**

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

**Product Innovation**

Product innovation continues to be yet another major challenge. Even though bank after bank is coming out with new products, not all are successful. What is of crucial importance is the need to understand the difference between

novelty and innovation? Peter Drucker in his path breaking book: "Management Challenges for the 21st Century" has in fact sounded a word of caution: "innovation that is not in tune with the strategic realities will not work; confusing novelty with innovation (should be avoided), test of innovation is that it creates value; novelty creates only amusement". The days of selling the products available in the shelves are gone. Banks need to innovate products suiting the needs and requirements of different types of customers. Revisiting the features of the existing products to continue to keep them on demand should not also be lost sight of.

**Pricing of Product**

The next challenge is to have appropriate policies in place. The industry today is witnessing a price war, with each bank wanting to have a larger slice of the cake that is the market, without much of a scientific study into the cost of funds involved, margins, etc. The strategy of each player in the market seems to be: 'under cutting others and wooing the clients of others'. Most of the banks that use rating models for determining the health of the retail portfolio do not use them for pricing the products. The much needed transparency in pricing is also missing, with many hidden charges. There is a tendency, at least on the part of few to camouflage the price. The situation cannot remain his way for long. This will be one issue that will be gaining importance in the near future (Donald, Copper & Pamela, 2003: 136).

**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 (Hamptoan, 2001:91).

**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 (Kohn, 2005:186).

## 2.1.10   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 lo 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 arc communicated fast.

➤ Make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

**Technology**

In the current scenario, the importance of technology cannot be understated for retail banks which entail large volumes, large queues and paperwork. But most of the banks are burdened with a large staff strength which cannot be done away with. Besides, in the rural and semi-urban areas, customers will not be at home in an automated, impersonal environment. The objective

would be to ensure faster and easier customer service and more usable information, instantly, economically and easily to all those who need it - customers as well as employees. Proper management information systems can also be implemented to aid in superior decision making. Communication technology is especially needed for money transfer between the same city and also between cities. There are inordinate delays in Nepal because of geographical and other factors. Modem technology can make it possible to clear any check anywhere within a day. Installation of software facilities at all the big branches will facilitate speedy transfer of payment advices. Computerization will be of great help in improving back-office operations. At present, all of the private sector banks of rural branches can have PCs. These can be used for quick retrieval and report generation. This will also drastically reduce the time bank staffs spend in filling and filing returns. Housekeeping operations can also be speeded up.

**Price Building**

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

aggressive competition; it differentiates its products compared to rivals in the same market where the products are sold individually or in other kinds of bundles (Shrestha, 1981:51).

## 2.1.11 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).

## 2.1.12 Types of Loans Made by Banks

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

a.  Real estate Loans, which are secured by real property land, building and other structures, which includes short term loans for construction and land development and long term loan to finance the purchase of farmland, homes payments, commercial structures, and foreign properties.

b.  Financial Institution Loan, include credit to banks, insurance companies, financial companies and other financial institutions.

c. Agricultural Loans, extended to farm and ranch opportunities to assists in planting and harvesting crops and to supping the feeding and care of livestock.

d. Commercial and Industrial Loan, granted to businesses to cover such expenses as purchasing inventories, paying taxes and meeting payrolls (Rose, 1983:54).

## 2.1.13  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.

**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 purist of aggressive growth.

**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 came 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.

**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).

**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.

**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.

**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.

**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.

## 2.1.14   Resurgence of Retail Banking

**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

finds. 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.

**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.

**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 bios 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 gave saved the actual money required. To counter this bank should shift their loan portfolio to grab these customers.

**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.

**Availability of Better Spread to Banks**

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

**Risk Diversification**

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

**Technological Innovation**

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

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

## 2.1.15  Present Status of Retail Banking in Nepal

Entry of more number of banks in the market has created intense competition in the banking industry. This has led the banks to operate under thin interest spreads, declining margins and rising costs this was not the case until two years ago. Consumer finance helps to reduce the risks of the banks by diversification of their portfolio and having a thrust on short term retail earnings rather 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 (Bhandari, 2005: 155).

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

Retail banking was viewed primarily as a cost center and source of low cost deposit. But these days, retail banking represents a major source of competitive strength for the banking industry, as it is a point of direct customers contact. Retail services are uniquely positioned to help banks develop strong long term relationship with targeted customers and thus

differentiate themselves from competitors. Banks look up a retail lending as a possible avenue to argument business in a current context. Consumer financing appears to be a viable alternative to cope with poor credit off takes.

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

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

## 2.1.16 Features of Sound Lending and Investment Policy

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

**Safety and Security**

Financial institutions should invest their deposit in profitable and secured sectors. Banks should not invest their fund whose securities are too much

depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied which marketing investment on any sector.

Where,

M= Marketability

A = Ascertain ability

S = Stability

T  = Transferability

Liquidity is the position of the firm to meet current or short-term obligations. General public or individual customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks wherever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund (Francis, 1983:59).

**Profitability**

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

**Purpose of Loan**

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

**Legality**

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

**Tangibility**

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

**Diversification**

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

## 2.1.17 Consumer Lending and Borrowing

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

**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 second place among household holding of financial assets are deposits in banks, saving and loan associations, credit unions, and other second 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 (Jobson, 1999:68).

**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 relived 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 as 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, change accounts and credit services, such as medical care and utilities. The total amount of non installment loan outstanding is difficult to estimate because many such loans are made by individual purpose.

**Home Equity Loans**

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

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

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

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

**Credit and Debit Cards**

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

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

checking, savings and loan account in a city hundreds of miles away as to keep it in a local financial institution.

## 2.1.18  Consumer Lending Institution

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

**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. The 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 in threatened

by challenged from aggressive non banking lenders who see the consumer market as a key growth area for the future.

**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 change for household loans and on maximum loan size (Weston and Copeland, 1992:87).

**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.

**Shrestha, (1998)** in her article ***"Lending Operation of Commercial Banks of Nepal and its impact on GDP"*** has presented with the objectives to make an analysis of contribution of Commercial Banks, lending to the Gross Domestic Product (GDP) of Nepal in 1998. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, industrial, commercial services and general social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that the entire variable except service sector lending has positive impact on GDP. In conclusion, she has accepted the hypothesis i.e. there has been positive impact on GDP and there has been positive impact by the lending of commercial banks in various investments.

**Mahat, (2009)** in his article **"shifting focus on Retail banking"** has explained clearly that the retail banking industry profile covers the two core retail banking markets, mortgage and personal loans. With slowdown of economic activities in the recent past, banks become selective in their lending operations as lending to industrial and trading activities as working capital and term loan requirement. Because of the uncertainty of economic development, Banks diverted their resources to a new area called retail lending. Retail banking refers to the mobilization of deposits by the banks mainly from individual and lending to small business in retail loan market. Retail banking consists of large volume of low value transactions. Banks are now trying to reduce the risks by diversifying their portfolio and having a trust on short term retail earnings rather than blocking funds in riskier mediums and long term loans. In the present competitive banking environment, differentiated products are an effective method of gaining competitive advantage. Consumer service is one of the most important dimensions of retail banking. While information technology has contributed to major upheaval in wholesale banking, its impact on retail banking has been

relatively limited. But these days retail banking represents a major source of competitive strength for banking industry.

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

**Sharma, (2010),** in his recent research entitled *"Approaches of Microfinance_ An Expert opinion"* attempts to collect the responses and opinions of micro finance experts and practitioners regarding approach of microfinance, contribution of MFIs., and outreach of the cost of MFIs are presented with the analysis of institutional viability and sustainability view. He observed that inadequate coverage of the program, less focus to supportive programs, higher cost of services and no proper linkages of the program to reduce poverty, defused focus/weak regulatory framework, no clear vision to address poverty no clear evaluation indicators, weak institutional foundation in designing the financial products, and weak security situation in rural areas as the major problems of the study. To overcome such problem, Sharma recommended introducing the new and modified approach of microfinance to

the developing countries like Nepal by mixing up the two very wide and general approaches i.e. self sufficiency and subsidized welfare approach. At the mean time the involvement of social cost, MFIs should help grant or subsidy in the initial period time without feeling of subsidy culture either on client's basis or on time basis to serve the poor. Within this time, MFIs have to promote at self sufficiency stage gradually.

Hervert V. Prochnow and Hervert V. Prochnow Jr. entitled "The changing world of Banking" have explained that as population growth and rise in income level, there is greater demand for financial services. The banking community cognizant of these increased needs expands its services.

Commercial banks serve the financial needs of individuals in the variety of different ways. Banks provide number of saving plans to allow individuals to earn interest on idle funds and safe deposit facilities.

Commercial banks also make home ownership possible for individuals through mortgage loans and allow them to achieve a desired pattern of consumer spending through the use of wide variety of consumer loan and bank credit. The greatest growth of retail banking in United States has occurred in the period since WORLD WAR II. Retail banking will be of increasing importance to United State commercial banks in the year ahead. As personal income increase in other countries, the demand for retail banking services will also increase. Overall retail banking is one of the fastest growing and most rapidly changing sectors of modern commercial banking. [Herbert V. Porchnow& Hervert V.

**Porchnow (1995), 'The changing world of Banking',** Harper Raw Publication Pvt. Ltd.] While a few banks specialize in wholesale banking or in retail banking, there is no longer a complete wholesale or retail bank in Nepal. Most of the banks combine retail and wholesale banking activities.

Some of the banks have a separate division or unit dealing corporate customers. The skill and knowledge required in 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.

**Shrestha (2006),** in his articles, *"Commercial Banks Comparative Performance Evaluation,"* concludes that joint venture banks are new, operationally more efficient having superior performance comparison with local banks. Better performance of JVBs is due to their complicated technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing pees. Provision for possible losses to loans and advances ratio in NBBL exceeded than in EBL, which indicates that loan and advances grants by the banks are inferior in contrast to EBL.

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

**Bajracharya (2008),** in his articles, *"Monetary Policy and Deposit Mobilization in Nepal"* has concluded that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal and commercial banks and the more active financial intermediaries for generating resources in the form of deposits of private sectors and providing credit to the investors in different sectors of the economy.

## 2.2.1 Review of Previous Thesis

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

**Aryal (2004)** in his thesis entitled *"An Analysis of Retail Lending in Market with Special Reference to Everest Bank Limited"*

**His Main Objectives are as follows:**

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

**His Major Findings are as follows:**
- He recommended that bank should follow liberal lending policy and invite more and more percentage of total deposit in loan and advances and similarly, maintain more stability in the investment policy.
- He recommended that the bank should try to mobilize its resources efficiently by creating new business

- Service ideas which will certainly help for the better utilization of ideal resources and for the economic development of the country.

**Thapa (2005),** has a research on the topic *"comparative study on Investment policy of Nepal Bangladesh Bank Limited and other joint venture banks"*.

**Her Main Objectives:**

- To analyze the relationship  between  loan and  advance and total investment with other financial variable of NB bank and compare them with NABIL and NBL.

- To evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NBL.

- To study the various risks in investment of NB bank in comparison to NABIL and NBL.

**Her Major Findings:**

➢ NB bank has good deposit collections, it has better liquidity position.

➢ It has made enough loan and advances but it has the negligible amount of investment in government securities.

➢ Credit risk ratio;, interest risk ratio, capital risk ratio and profitability position of NB bank is comparatively worse than NABIL and NBL.

➢ There is significant relationship between deposit and loan and advance, outside assets and net profit of NB bank.

**Dhungana (2006),** his research, *"A Comparative Study on Investment Policy of Nepal, Bangladesh Bank and Other Joint Venture Banks"*, tries to compare the Investment policy of NBBL with HBL and NSBL. His Main Objectives:

➢ To study the growth ratios of loan and advance and investment to total deposit and net profit of NBBL on comparison with HBL and NSBL.

➢ To analyze the relationship between loan and advance and total investment with other financial variable of NBBL and compare with HBL and NSBL.

➢ To examine the profitability position and credit risk ratios and interest risk ratios.

**His Majors Findings:**

➢ NBBL has not good deposit collection, it hasn't made enough cash and bank balance and it has made negligible amount of investment in government securities.

➢ The Asset management ratios were highly variable which reveals NBBL has not followed stable policy NBBL's ratio of OBS operation to loan and Advances lower than that of HBL but its ratio is greater than that of NSBL.

- The profitability position on NBBL is comparatively not better than that of HBL but better than that of NSBL.

- The credit risk ratios and interest risk ratios of NBBL is higher than that of HBL and NSBL Banks profitability is solely depends on Interest charged by a bank but the high interest rate risk of NBBL shows that bank is failure to maintain this.

- Trend of deposit collection, lending, Investment and net profit were not better than HBL but better than NSBI.

**Loudari (2007),** conducted a study on *"A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd."*

**His Main Objectives:**

- To examine the liquidity asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.

- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL on comparison to Nepal SBI Bank Ltd.

- To analyze relationship between deposit and investment, deposit and loans and advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

**His Majors Findings:**

- Current ratios for both the Banks is satisfactory.

- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree.

- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.

- The analysis of growth ratios shows that growth ratios of total deposits, loans and advances, total investment and net profit of Nepal Indosuez Bank Ltd. are less than that of Nepal SBI Bank Ltd.

- The trend value of loans and advances to total deposit ratio is decreasing in case of both the banks. The trend value of total investment to total deposits ratio is also decreasing in case of both the banks.

**Raya (2009),** in his thesis, *"Investment Policy and Analysis of Commercial Banks in Nepal"* made a comparative study of SCBL. With NIBL and NBBL.

**His Main Objectives:**

- To discuss fund mobilization and Investment policy of SCBL in respect to its fee based off- mbalance sheet transaction and fund based on balance sheet transaction.

- To evaluate the quality, efficiency and profitability and risk position.

- To evaluate trend of deposit, investment, loan and advances and projection for next years.

**His Majors Findings**:

- Mean current ratio of SCBL is slightly higher than NBBL and NIBL.

- Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.

- Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio.

- SCBL has a good deposit collection. It has made enough Investment on government securities but it has maintained low investment policy on loan and advances. SCBL is comparatively average successful in it's on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.

- SCBL is comparatively higher position than that of other banks, as well as its use to provide interest to the customers for different activities.

- There is significant relationship between deposit of loan and advances and between asset and net profit of SCBL.

**Joshi (2010),** has conducted a study on *"Investment Policy of Commercial Bank of Nepal"* a comparative study of EBL with NABIL Bank and BOK.

**Her Main Objectives:**

- To examine the liquidity assets management and profitability position and investment policy of EBL in comparison to NABIL and BOKL.

- To analyze the relationship between loan and advance and total investment with other financial variable of EBL and compare with NABIL and BOKL.

- To study the various risks in investment of EBL in comparison to NABIL and BOKL.

**Her Majors Findings:**

- EBL has higher idle cash and bank balance. It may decrease profit of bank. It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial

bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.

➢ Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said "all eggs should not be kept in the same basket". The bank should make continuous effort to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.

➢ EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund.

➢ On the basis of above facts, it is seen that EBL has invested much of its fund in total outside assets but it has not achieved the desired result.

➢ The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle.

**Thapa (2011)** *"A Comparative study on investment policy of SCBNL & NABIL Bank Ltd."*

**His main objective**

➢ To measure the relationship among total investment deposit, loan and advances, net profit outside asset of SCBNL & NABIL.

➢ To analysis the trend of deposit utilization, total investment, net profit, loan and advance of SCBNL & NABIL.

- To evaluate the liquidity, asset management efficiency, profitability, growth position and risk position of SCBNL & NABIL.

- To find out the opinion of the people in context of investment decision, appropriate sector for making investment reason for investing major portion of deposit in loan and advance, major problems that bank are facing and the policies and guidelines of Nepal Rastra Bank.

- To provide suitable suggestion and recommendations for the improvement of the bank's performance.

**His major findings:**

- The main liquidity position of the SCBNL is higher than that of NABIL. SCBNL is more consistent than NABIL.

- The mean ratio of investment on government securities to current asset of NABIL is lower than that of SCBNL. The variability ratio of SCBNL is less consistent than NABIL.

- The variability of the investment on government securities ratio of NABIL is less consistent.

- During the study period, the mean ratio of credit risk of NABIL is higher than that of SCBNL. It means NABIL has beared more risk in comparison to SCBNL. The credit ratio of NABIL is more consistent than that of SCBNL.

- There is highly positive and significantly correlation between total deposit and total net profit of SCBNL & NABIL.

- The main factors considered while taking investment decision, the profitability is considered as main factor while security, political climate, level of income and government policy is considered as other factors respectively.

## 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. This study covers the current scenario of home loan, auto loan and personal loan in Nepalese context.

# CHAPTER-III

# RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific method to be adopted in a systematic study. Research methodology describes the method and process applied in the entire aspect of the study. It is way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. Where we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them (Kothari, 1984:10).

## 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

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

Sampling techniques is very much essential for conducting a research. It allows the researcher to make an intensive study of the research problem. When the study of whole population is not possible, sampling techniques is adopted. The ideal sampling represents the whole universe accurately. For selecting the samples out of 32 commercial bank, 2 customer friendly retail banking player banks are selected. They are as follows.

- Everest Bank Limited (EBL)

- Himalayan Bank Limited (HBL)

## 3.3    Source of Data

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

- Annual reports, newsletters, brochures etc. of the selected banks.

- Textbooks, articles published in newspapers, journals magazines etc.

- Banks websites and other relative websites.

- Questionnaire to bank officials, depositors and academicians

## 3.4    Data Collection Techniques

In order to make the study more reliable and authentic different tools and techniques are used throughout the study. Primary data has been obtained through questionnaire, direct interviews, field visits and telephone inquiries. For secondary data annual reports, brochures, etc. has been collected from

different department of concerned banks a websites were also used for downloading the necessary information.

## 3.5    Data Processing and Presentation

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

## 3.6    Data Analysis Tools

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

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

**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.

**(A)    Correlation Co-efficient (r)**

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

appears to be related or linked with the change in the other variables. Correlation coefficient describes not only the magnitude of the correlation but also its direction. It always lies between +1 and -1.

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

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

If r=0, the variables are uncorrelated.

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

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

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

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

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

**Coefficient of Determination ($r^2$)**

The square of simple correlation coefficient is called coefficient of determination. It explains to what extend the variation of a dependent variable is expressed by the independent variable. A high value of coefficient of determination shows a good listed relationship between the two variables. If the value of coefficients or correlation, r = 0.09, then the coefficient of determination, r2 = 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 r2 than r and therefore, coefficient of determination is preferred while presenting the result of correlation analyses.

**Probable error (P, E) of Correlation Coefficient**

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

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

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

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

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

**(B)    Trend Analysis**

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

　　　Y =a+bx

Where, a=$\frac{\Sigma y}{n}$

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

y=dependent variable

x=deviation from some convenient time period

b=slope of trend line or annual rate of growth

a=y-intercept.

**Variables**

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

**Dependent Variables**

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

**Independent Variables**

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

# CHAPTER-IV

# DATA PRESENTATION AND ANALYSIS

This Chapter deals with the presentation, analysis and interpretation of data collected mainly through primary and secondary sources, in order to fulfill the objective of the study. In this chapter, the available data are presented for the evaluation of Retail Banking. For the accomplishment of the objectives, the defined course of research methodology has been followed and effort has been made to analyze the current trend of retail banking in Nepal.

## 4.1    Position of Home Loan

Home loan automatically becomes the area of focus when retail banking becomes a priority. Home is one of the important needs of any human being. Stressing on the crucial role and opportunities in housing loans, most of the bank first priority is home loan. Due to different reason like changing culture, government support, urbanization etc. home loan is leading in the retail banking industry.

**Table 4.1**

**Home Loan: Position, Contribution and Average Growth**

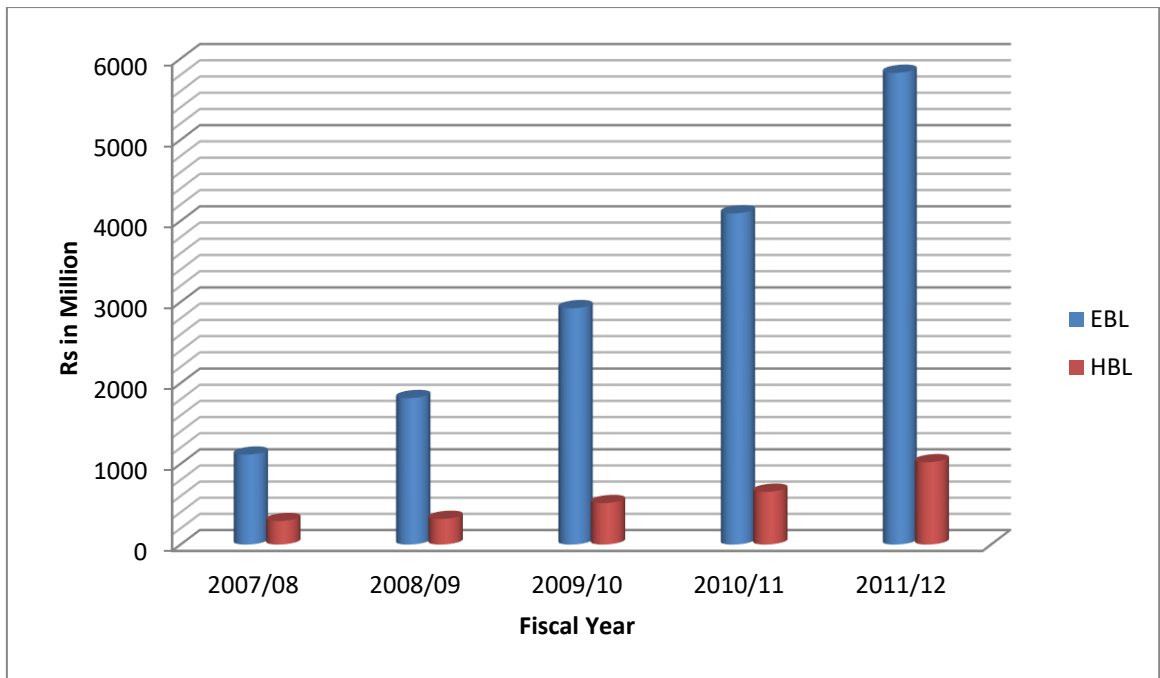| | Year | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Average growth rate of home loan |
|---|---|---|---|---|---|---|---|
| EBL | Loan amount (Rs. In millions) | 1114.48 | 1815.48 | 2924.11 | 4093.75 | 5825.40 | 41 |
| | Contribution in loan& Advance | 16.26 | 18.52 | 21.40 | 21.73 | 23.80 | |
| HBL | Loan amount (Rs. In millions) | 291.37 | 318.27 | 514.31 | 653.89 | 1020.4 | 34 |
| | Contribution in loan & Advance | 4.76 | 4.62 | 5.75 | 5.67 | 6.90 | |

Source: Annual Report and Internal Sources of EBL & HBL

Table 4.1 depicts that the leads the Housing Finance by providing loan whereas EBL followed the path by disbursing loan amount Rs.1114.48 million and HBL amounted Rs. 291.37 million. Similarly EBL provides home loan amounting Rs.1114.48 millions, Rs.2924.11 million, Rs.4093.75 million and Rs.5825.40 million in 2008/09, 2009/10, 2010/11 and 2011/12 respectively. HBL provides home loan amounting Rs. 318.27 Million Rs. 514.31Mllion, Rs. 653.89 Million and Rs. 1020.40 Million in 2008/09, 2009/10, 2010/11 and 2011/12 respectively.

Housing finance is the highest contributed segment in the retail banking. The table shows the percentage of housing loan disbursement to loan and advance of EBL is 16.26%, and HBL is 4.76% in 2007/08. Contribution in loan and advance of home loan is in increasing trend of EBL and HBL, but the contribution ratio of bank's is increasing up to 2009/10 then after the rate.

**Figure: 4.1**

**Home Loan Disbursement by Banks**

The figure 4.1depicts that maintained its leadership followed by EBL in housing finance in 2007/08, 2008/09, 2009/10 and 2010/11. HBL stands at the second place in this respect. But in fiscal year 2011/12, EBL leads the housing finance followed by EBL and then by HBL.

**Figure: 4.2**

**Home Loan: Contribution to Loan and Advance**
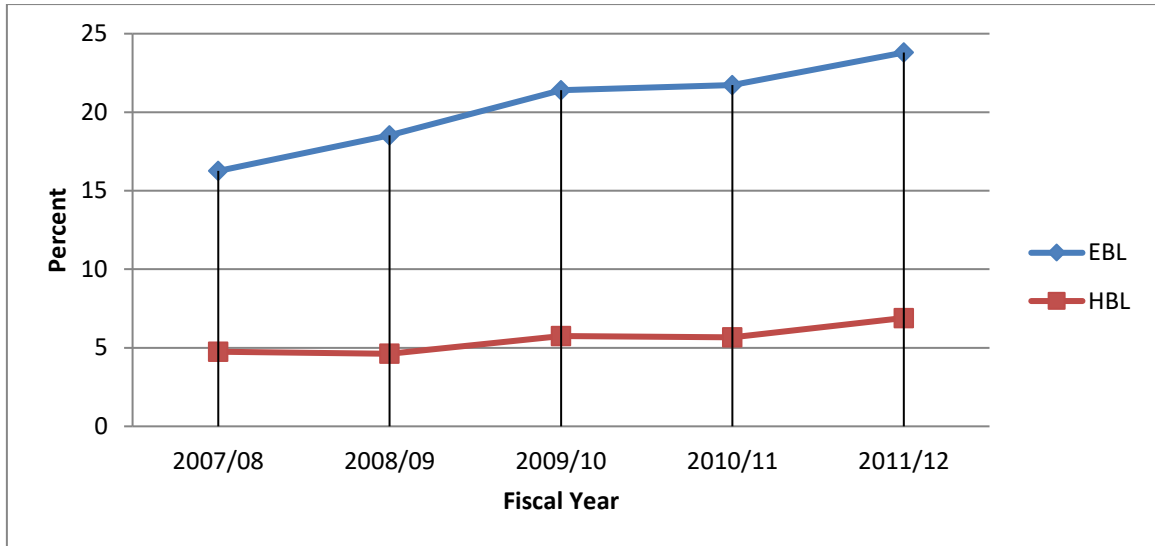
Figure 4.2 depicts that EBL has the highest contribution made by its housing loan to total loan and advance in all the four fiscal years followed by at second place and HBL at the second place. The contribution of EBL and HBL are in increasing trend at each successive year. But for it increased in the second year then it started decreasing.

**Figure: 4.3**

**Average Growth Rate in Home Loan**
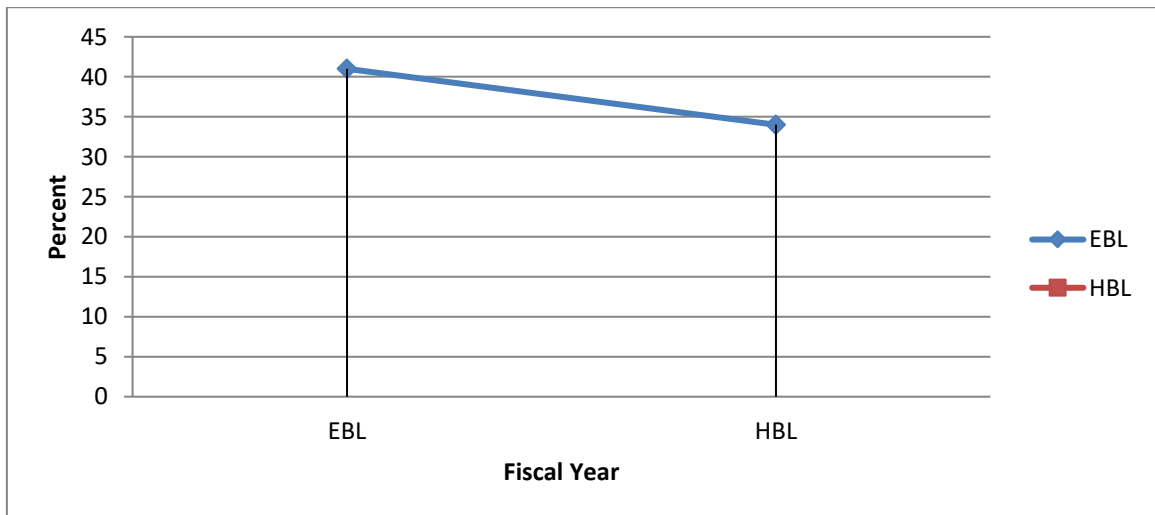


In terms of the average growth rate of home loan, EBL holds the top position. Its average growth rate is 41 percent. HBL Bank Ltd. holds the second

position in terms the average growth rate of home loan. The same is presented in the figure 4.3 above.

## 4.2    Position of Auto Loan

Nepalese market is the growing market for auto vehicles. There are so many world class vehicle showrooms. Nepalese consumer has diverted their preference to own market. That helped to boost in vehicle loan.

**Table: 4.2**

**Auto Loan : Position, Contribution and Average growth**

| | Year | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Average growth rate of Auto loan |
|---|---|---|---|---|---|---|---|
| EBL | Loan amount (Rs. In million) | 398.28 | 641.13 | 958.18 | 1313.19 | 2336.80 | 35.4% |
| | Contribution to loan and advance (in %) | 5.81 | 6.54 | 7.20 | 6.97 | 9.54 | |
| HBL | Loan amount (Rs. In million) | 287.23 | 493.17 | 653.60 | 782.44 | 1308.08 | 30.2% |
| | Contribution to loan and Advance (in %) | 5.45 | 7.16 | 7.32 | 6.79 | 7.32 | |

Source: Annual Report and Internal Sources of EBL & HBL

Table 4.2 depicts that EBL provides the auto loan amounting Rs. 398.28 Rs. 398.2 million, Rs.958.18 million, Rs. 1313.19 Million and Rs. 2336.80 Million and contribution in total loan and advance is 5.81 percentages 6.54percent, 7.2 percent, 6.97 percent and 9.54 percent respectively. Similarly HBL provides auto loan amounting Rs. 287.23 Rs.493.17 million, Rs.653.6 million, Rs.782.44 million and Rs.1308.08 million and it contributes 5.45 percentages 7.16 percent, 7.32 percent, 6.79 percent and 8.84 percent in the respective years.

**Figure: 4.4**

**Auto Loan Disbursement by Banks**
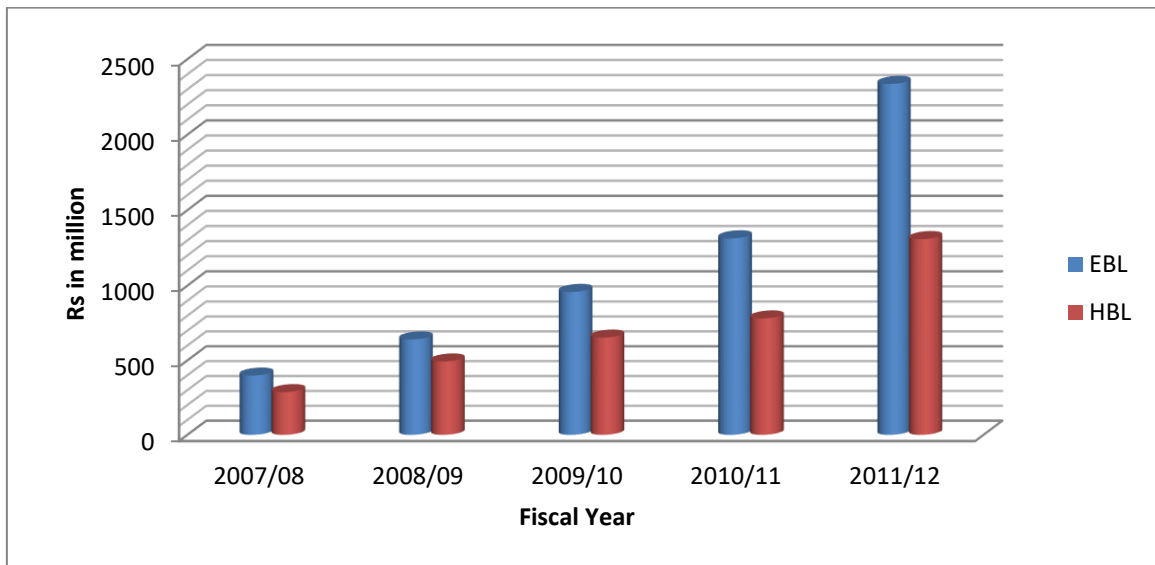


Figure 4.4 depicts that HBL Bank has the highest auto lending among the two banks throughout the study period.EBL follows in terms of auto lending in all the years. HBL stands at the second position among the sample banks.

**Figure: 4.5**

**Auto Loan – Contribution to Loan and Advance**
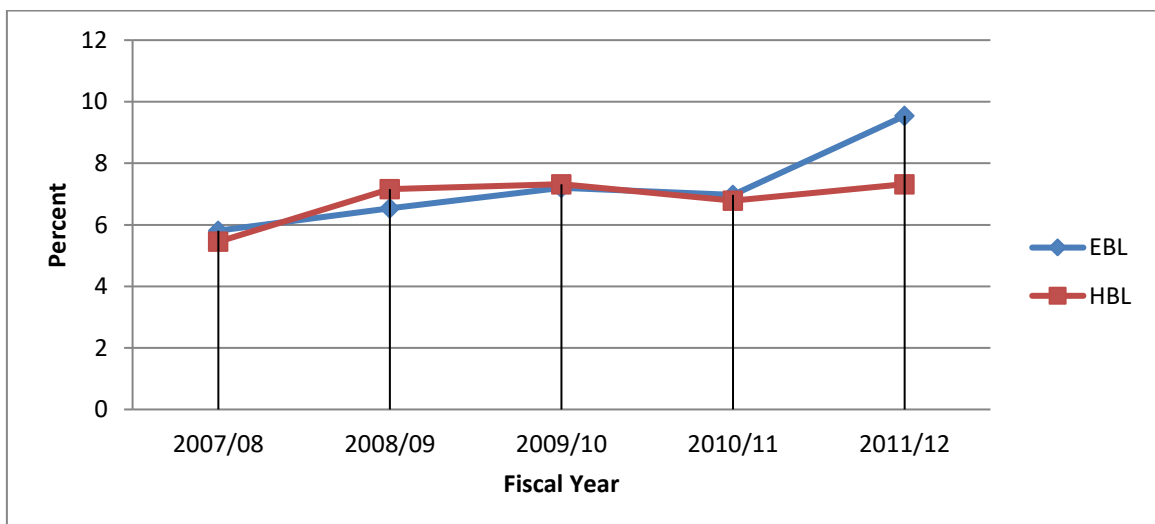


The figure 4.5 shows that HBL has the highest contribution made by auto loan to total loan and advance throughout the study period. HBL stands at the second position in F/Y 2008/09 and 2009/10. EBL holds second position in

these two fiscal years. But EBL holds first position in the remaining two fiscal years, HBL standing at the second position.

**Figure: 4.6**

**Average Growth Rate of Auto Loan**
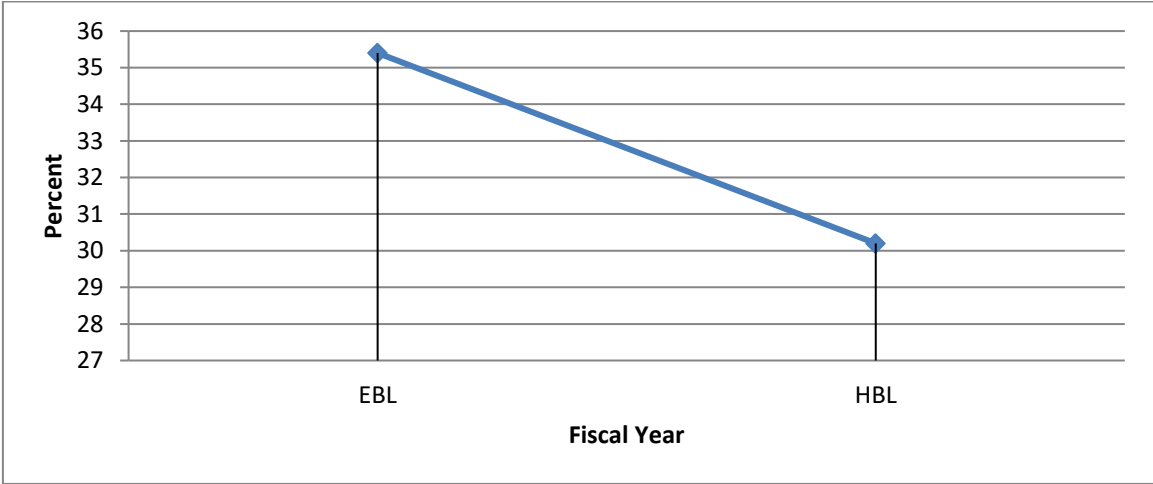


In terms of the average growth rate in auto loan disbursement, EBL is the leader followed by HBL as depicted by the above figure 4.6. The average growth rate in auto loan disbursement of EBL and HBL Bank is 35.4 percent and 30.2 percent respectively.

## 4.3 Position of Personal Loan

Following the globalization and liberalization, fast manufacturing consumer goods, educational institution and consumer durable product opened up to the international players. As the increase in consumer durable production and education, Nepalese consumer's preference to these segments also increased. They began to utilize these services by even taking personal loan from bank.

**Table: 4.3**

**Personal Loan: Position, contribution and Average Growth**

| | Year\nBank | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Average growth rate of personal loan |
|---|---|---|---|---|---|---|---|
| EBL | Loan amount (Rs. in Million) | 620.36 | 992.56 | 1265.48 | 1632.47 | 2192.80 | 20.2% |
| | Contribution to loan and advance | 9.05 | 10.13 | 9.26 | 8.67 | 8.96 | |
| HBL | Loan amount (Rs. in Millions) | 145 | 215 | 398 | 519.20 | 699.34 | 32.6 |
| | Contribution to loan and advance | 2.75 | 3.12 | 4.46 | 4.51 | 4.73 | |

Source: Annual Report and Internal Sources of EBL & HBL

EBL provides Rs. 620.36 millions Rs.992.56 million, Rs.1265.48 million, Rs.1632.47 million and Rs.2192.80 million which contributes 9.05 percent, 10.13 percent, 9.26 percent, 8.67 percent and 8.96 percent to total loan and advance in fiscal year  2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. HBL provides personal loan of Rs. Millions, Rs.215 million, Rs.398 million, 519.20 million and Rs.699.34 million which contributes 2.75 percentage 3.12 percent,  4.46 percent, 4.51 percent and 4.73 in fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively.

**Figure: 4.7**

**Personal Loan Disbursement by Banks**
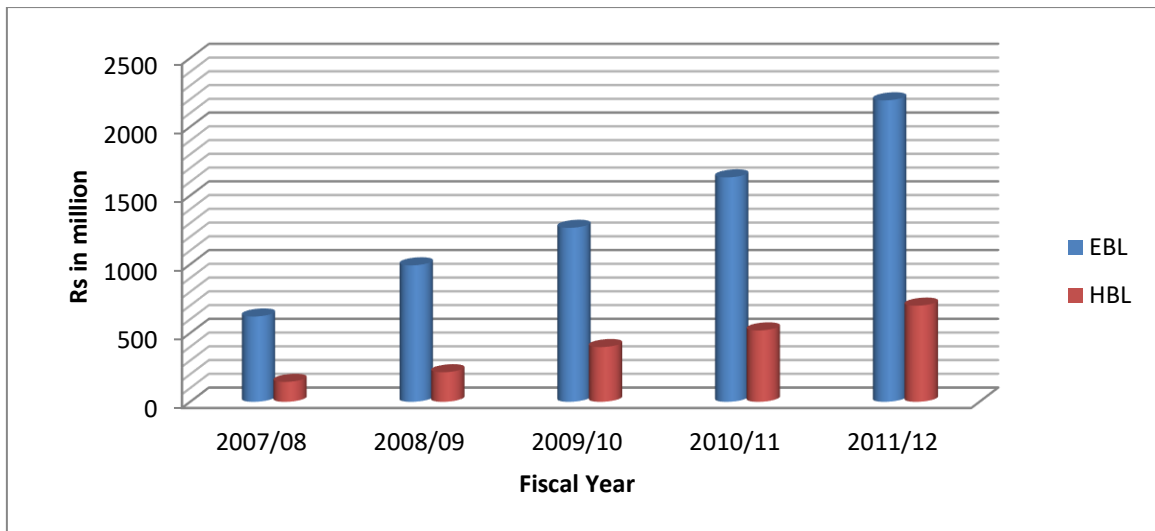
Figure 4.7 depicts that EBL is the highest provider of personal loan among the sample banks during the entire study period. HBL holds the second position in F/Y 2008/09 followed by HBL. But HBL holds the second position in F/Y 2009/10, 2010/11 and 2011/12 followed by at the second place.

**Figure: 4.8**

**Personal Loan – Contribution to Loan and Advance**



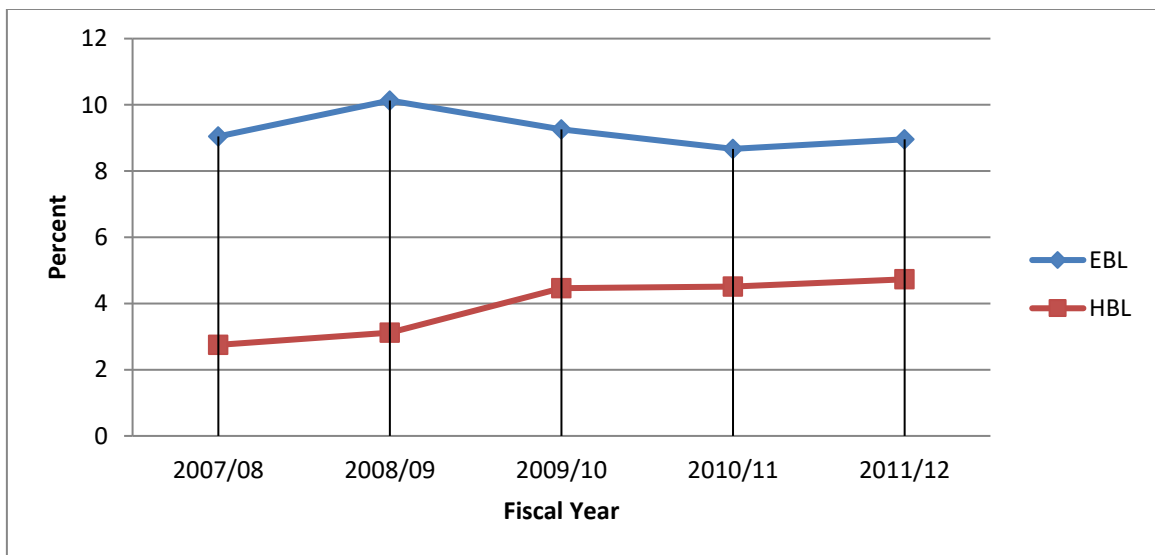Figure 4.8 shows that the contribution made by personal loan to total loan and advance is highest for EBL among the sample banks throughout the study period. HBL holds the second position in terms of the contribution of personal

loan to total loan and advance throughout the study period followed by HBL bank.

**Figure: 4.9**

**Average Growth Rate of Personal Loan**
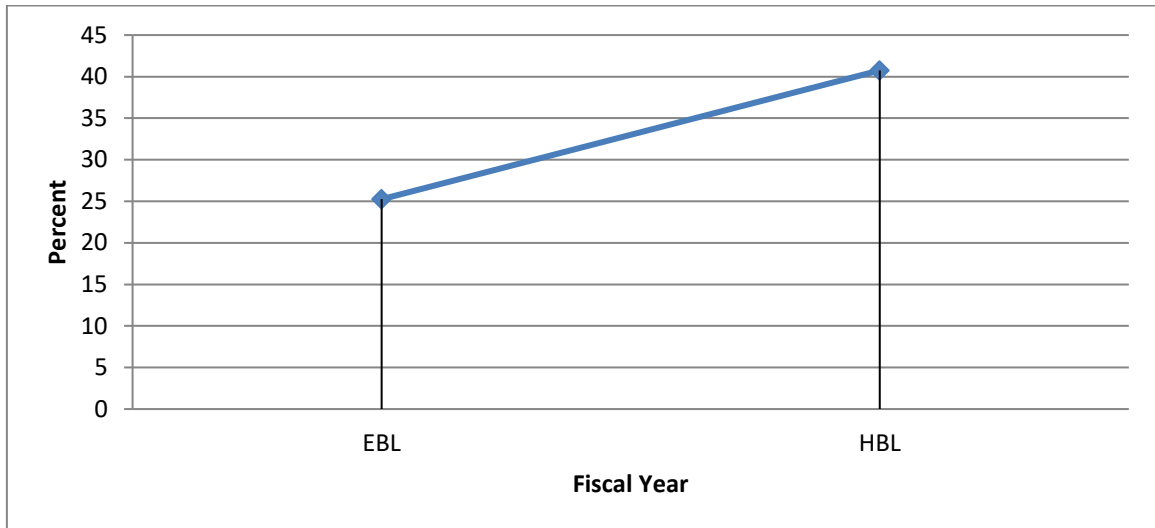


The average growth rate of personal loan disbursement of HBL is the highest among the two banks. An average growth rate of EBL is 20.2 percent and then by HBL with an average growth rate of 32.6 percent.

## 4.4 Relationship between Retail Banking Products and Total Loan and Advance

One of the main objectives of this study is to know the relationship between retail banking and total loan and advance. In other words, the major motive is to explore to chuck of home loan, auto loan and personal loan out of total loan and advance. Since few years, financial institutions are not getting appropriate avenues for investment. So they are forced to search new sector for investment and ultimately enter into retail banking. This scenario has diverted most of the investable fund of bank to retail sectors. To some extent such finance is good, but large finance on such sector is not good for country's economy because they are non-productive sector. They do not give any contribution to the growth of economy. So, an effort is made here to know the relationship of retail banking to total loan and advance.

## 4.4.1 Analysis of correlation coefficient between Home Loan and Total Loan and Advance for EBL, and HBL

The purpose of coefficient of correlation between Home loan and total Loan and Advance is to measure the degree of relationship between two variables. The following table 4.4 describes the relationship between home loan and total loan and advances of EBL and HBL. In the following case, home loan is independent variable (x) and total loan and advances is dependent variable (y).

**Table: 4.4**

**Correlation coefficient between Home loan and Total Loan and Advance**

| Banks | Base of Evaluation | | | |
|---|---|---|---|---|
| | r | $r^2$ | P.E | 6×P.E. |
| EBL | 0.998 | 0.996 | 0.0007 | 0.004 |
| HBL | 0.9827 | 0.9657 | 0.012 | 0.072 |

Source: Annual Report and Internal Sources of EBL & HBL

Table 4.4 depicts that there is a high degree of positive correlation coefficient between home loan and total loan and advance for two banks. It indicates that if the home loan is increased the total loan and advance of the bank also increases. So, to increase the total loan and advance of the bank, bank must increase its home loan. The correlation coefficient between home loan and total loan and advance value of EBL, and HBL are 0.998, 0.9697, and 0.9827 respectively.

The value of coefficient of determination ($r^2$)of EBL is 0.996, which means 99.6 percent of total loan and advance decision depend upon home loan and only 0.40 percent loan and advance depend upon other variables. The value of $R^2$of which means that 94.03 percent of total loan and advances decision is depend upon home loan and only 5.97 percent loan and advances depend upon other variables. Similarly, the value of $R^2$of HBL is 0.9657, which

means 96.57 percent of loan and advance decision depend upon home loan and only 3.43 percent depend upon other variables.

By considering the probable error (P.E.), the value is greater than the 6 times of P.E., i.e. 0.998>0.004, 0.9697> 0.1206 and 0.9827> 0.072. This indicates that there is significant relationship between home loan and total loan and advances.

## 4.4.2 Analysis of correlation coefficient between Auto loan and Total Loan and Advances for EBL, and HBL

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

**Table: 4.5**

**Correlation coefficient between Auto loan and Total Loan and Advance**

| Banks | Base of Evaluation | | | |
|---|---|---|---|---|
| | r | $r^2$ | P.E | 6×P.E. |
| EBL | 0.9653 | 0.9318 | 0.023 | 0.0138 |
| HBL | 0.9638 | 0.9289 | 0.0711 | 0.4265 |

Source: Annual Report and Internal Sources of EBL & HBL

Table 4.5 depicts that the correlation coefficient between auto loan and total loan and advances value of EBL, and HBL are 0.9653, -0.7844 and 0.9638 respectively. This shows the higher degree of positive correlation coefficient between auto loan and total loan and advance of EBL and HBL. It indicates that the higher loan and advances higher the auto loan of EBL and HBL. So to increase the total loan and advance it must be increase auto loan.

The value of $r^2$ of EBL 0.9318 which means 93.18 percent of total loan and advances decision depends upon auto loan and 6.82 percent loan and advances depends upon other variables. Similarly the value of $r^2$ of HBL 0.9289 which means 92.89 percent of total loan and advance depends upon auto loan and 7.11 percent loan and advances depends upon other variables.

By considering the probable error (P.E.), the value of r is greater than the 6 times of P.E. of EBL and HBL i.e. 0.9653>0.0138 and 0.9638>0.4265, which indicates there is significant relationship between auto loan and total loan and advance.

## 4.4.3 Analysis of Correlation Coefficient between Personal Loan and Total   Loan and Advance for EBL and HBL

The correlation coefficient between personal loan and total loan and advance is to measure the degree of relationship between two variables. The following table no 4.6 describes the relationship between personal loan and total loan and advance of EBL and HBL with comparative under four years study period. In the following case, Personal loan is independent variable (x) and loan and advances is dependent variable (y).

**Table: 4.6**

**Correlation Coefficient between Personal Loan and Total Loan and Advance**

| Banks | Base of Evaluation | | | |
|---|---|---|---|---|
| | r | $r^2$ | P.E | 6×P.E. |
| EBL | 0.9959 | 0.9918 | 0.0028 | 0.0166 |
| HBL | 0.9915 | 0.9831 | 0.0057 | 0.0342 |

Source: Annual Report and Internal Sources of EBL & HBL

The table 4.6 depicts that the correlation coefficient between personal loan and total loan and advances value of EBL, and HBL are 0.9959, 0.9585 and 0.9925 respectively. This shows the high degree of positive correlation coefficient between personal loan and total loan and advances. It indicates that higher the personal loan higher the total loan and advance. So, to boost the total loan and advance it must be increase personal loan.

The value of $r^2$ of EBL 0.9918 which means 99.18 percent of total loan and advance decision is depend upon the personal loan only 0.82 percent loan and advances are depend upon other variables. Similarly The value of $r^2$ of HBL 0.9831 which means 98.31 percent of total loan and advance decision is depend upon the personal loan only 1.69 percent loan and advances are depend upon others variables.

By considering the probable error (P.E.), the value of r is greater than the 6 times of P.E. i.e. 0.9959> 0.0166, 0.9585> 0.1645 and 0.9915> 0.0342, which indicates that there is significant relationship between Personal loan and total loan and advances.

## 4.5    Trend Analysis

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

### 4.5.1   Trend Analysis of Home Loan for EBL and HBL

In this section, an attempt is made to analyze the trend of amount of home loan for EBL and HBL and to forecast the home loan for coming two years on the basis of present trend.

**Table: 4.7**

**Trend Analysis of Home Loan for EBL and HBL** *(Rs.in Million)*

| Year | EBL | | HBL | |
|---|---|---|---|---|
| | Home Loan | Trend Value | Home Loan | Trend Value |
| 2007/08 | 1114.48 | 814.62 | 251.32 | 176.89 |
| 2008/09 | 1815.48 | 1984.63 | 318.27 | 364.26 |
| 2009/10 | 2924.11 | 3154.64 | 514.31 | 551.63 |
| 2010/11 | 4093.75 | 4324.65 | 653.89 | 739 |
| 2011/12 | 5825.4 | 5494.66 | 1020.4 | 926.37 |
| 2012/13 | | 6664.67 | | 1113.74 |
| 2013/14 | | 7834.68 | | 1301.11 |
| 2014/15 | | 9004.69 | | 1488.48 |
| 2015/16 | | 10174.7 | | 1675.85 |
| | | | | |
| Mean (a) | | 3154.64 | | 551.63 |
| Rate of Change (b) | | 1170.011 | | 187.37 |
| Trend Equation(y) | | 3154.64+ 1170.01X | | 551.63+ 187.37X |

Source: Annual Report and Internal Sources of EBL & HBL

**Figure: 4.10**

**Trend Analysis of Home Loan for EBL and HBL**
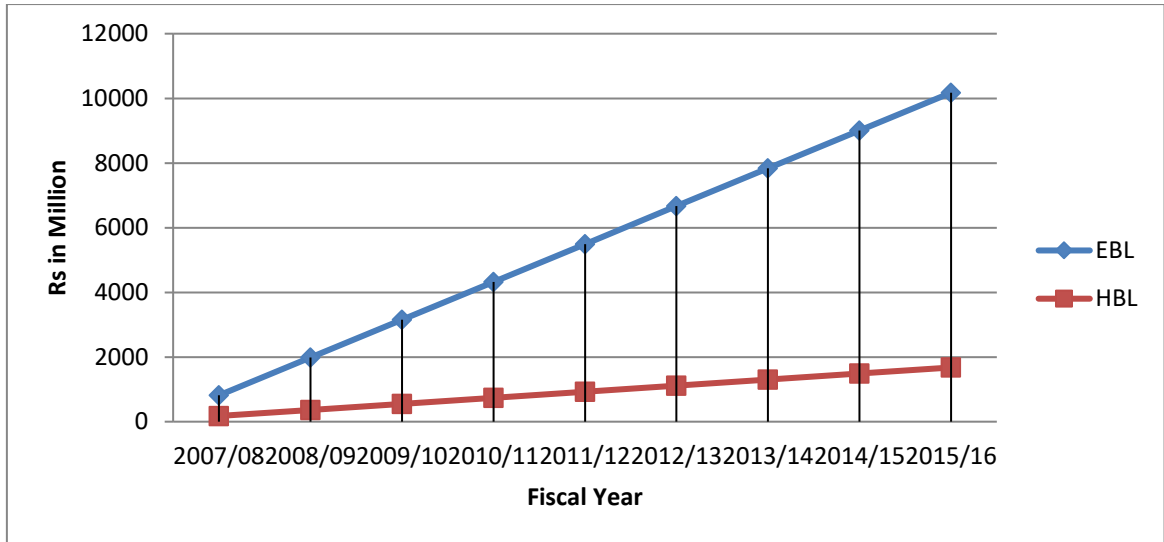
Table 4.7 depicts that the trend of home loan of sample banks. The rate of change for EBL is Rs.1170.01 million, for and for HBL is Rs.187.37 million in the study period. The mean home loan of EBL is Rs.3154.68 million and HBL's Rs.551.37 million in the study period.

If the other things remain the same, the projected amount of home loan of EBL, and HBL for the fiscal year 2012/13 will be Rs.6664.67 million, Rs.1113.74 million. Similarly, the amount of home loan of same banks for the fiscal year 2015/16 will be Rs.10174.7 million and Rs.1675.85 million of EBL and HBL respectively. These facts are presented in figure above to make clearer.

### 4.5.2  Trend Analysis of Auto Loan for EBL and HBL

The following table 4.8 shows the trend amount of Auto loan for EBL and HBL and forecasts the amount for the coming two years.

**Table: 4.8**

**Trend Analysis of Auto Loan for EBL and HBL** (in Millions)

| Year | EBL | | HBL | |
|---|---|---|---|---|
| | Auto Loan | Trend Value | Auto Loan | Trend Value |
| 2007/08 | 398.28 | 225.09 | 287.23 | 238.724 |
| 2008/09 | 641.13 | 680 | 493.17 | 471.814 |

| | | | | |
|---|---|---|---|---|
| 2009/10 | 985.18 | 1134.91 | 653.6 | 704.904 |
| 2010/11 | 1313.19 | 1589.82 | 782.44 | 937.994 |
| 2011/12 | 2336.8 | 2044.73 | 1308.08 | 1171.084 |
| 2012/13 | | 2499.64 | | 1404.174 |
| 2013/14 | | 2954.55 | | 1637.264 |
| 2014/15 | | 3409.46 | | 1870.354 |
| 2015/16 | | 3864.37 | | 2103.444 |
| Mean (a) | | 1134.91 | | 704.90 |
| Rate of Change (b) | | 454.91 | | 233.09 |
| Trend Equation(y) | | 1134.91+ 454.91X | | 704.90+ 233.09X |

Source: Annual Report and Internal Sources of EBL & HBL

**Figure: 4.11**

**Trend Analysis of Auto Loan for EBL and HBL**
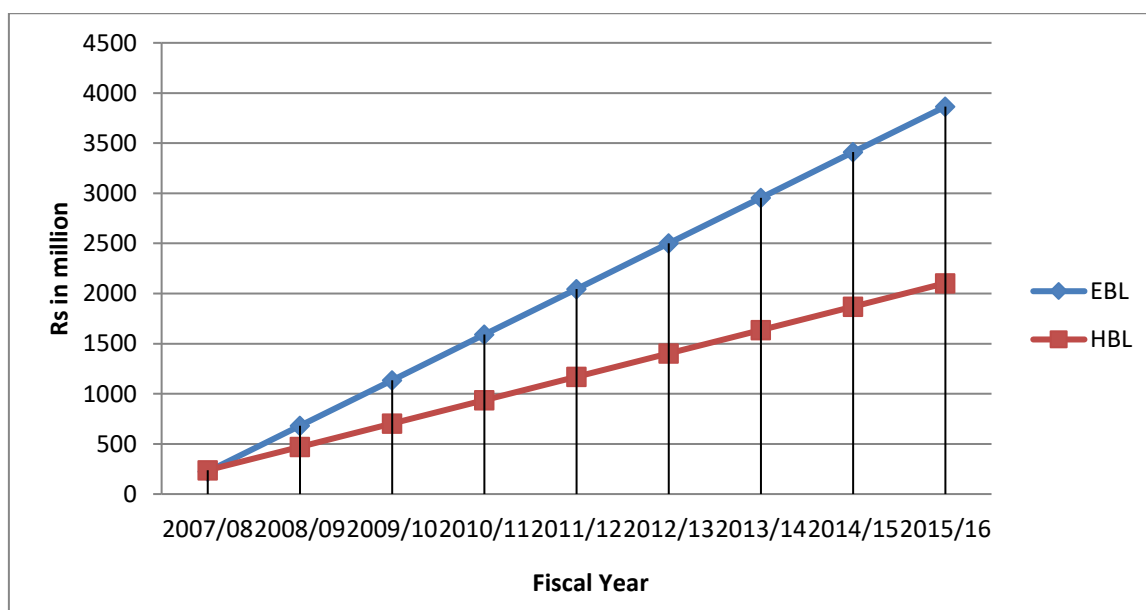


Table 4.8 depicts that the amount of Auto loan of EBL and HBL are in increasing trend. The rate of change of EBL and HBL are Rs.454.91 million and Rs.233.09 million respectively.

If the other things remain the same, the auto loan of EBL,  and HBL for the fiscal year 2012/13 will be Rs.2499.64 million and Rs.1401.17 million respectively. Similarly the auto loans of  same banks for the  fiscal year

2015/16 will be Rs.3864.37 million and Rs.2103.44 million respectively. These facts are presented in figure 4.11 to make clearer.

### 4.5.3 Trend Analysis of Personal Loan for EBL and HBL

The following table 4.9 shows the trend amount of personal loan for EBL and HBL and forecasted amount for the coming two years.

**Table 4.9**

**Trend Analysis of Personal Loan for EBL and HBL** *(Rs.in Million)*

| Year | EBL | | HBL | |
|---|---|---|---|---|
| | Personal Loan | Trend Value | Personal Loan | Trend Value |
| 2007/08 | 620 | 583.56 | 145 | 112.732 |
| 2008/09 | 992.56 | 962.11 | 215 | 254.02 |
| 2009/10 | 1265.48 | 1340.66 | 398 | 395.308 |
| 2010/11 | 1632.47 | 1719.21 | 519.2 | 536.596 |
| 2011/12 | 2192.8 | 2097.76 | 699.3 | 677.884 |
| 2012/13 | | 2476.31 | | 819.172 |
| 2013/14 | | 2854.86 | | 960.46 |
| 2014/15 | | 3233.41 | | 1101.748 |
| 2015/16 | | 3611.96 | | 1243.036 |
| Mean (a) | | 1340.66 | | 395.30 |
| Rate of Change (b) | | 378.55 | | 141.28 |

| Trend Equation(y) | 1340.66+ 378.55X | 395.30 + 141.28X |
| --- | --- | --- |

Source: Annual Report and Internal Sources of EBL & HBL

Table 4.9 depicts that the amount of Personal loan of two banks are in increasing trend. The rate of change of EBL and HBL are Rs.387.55 million, and Rs.141.28 million respectively. The mean personal loan of EBL is Rs.1340.66 million and HBL's Rs.395.30 million in the study period.

If other things remain same, the personal loan of EBL and HBL for the fiscal year 067/069 will be Rs.2476.31 million and Rs.677.88 million respectively. Similarly, the personal loan of same banks for fiscal year 2015/16 will Rs.3611.96 million and Rs.1243.036 million these facts are presented in graph 4.12 to make more clearly.

**Figure 4.12**

**Trend Analysis of Personal Loan for EBL and HBL**
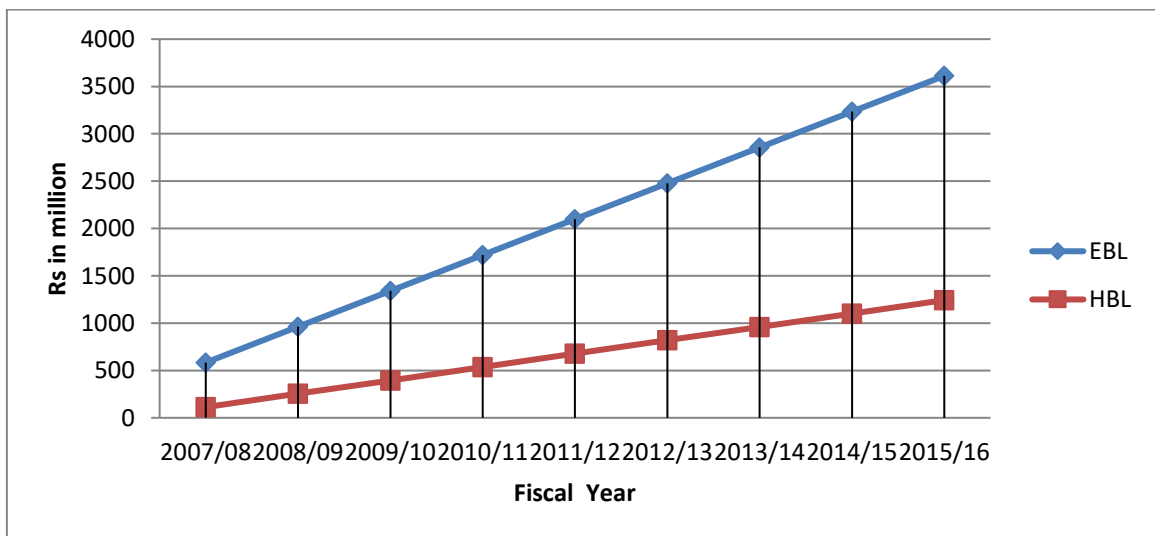


## 4.6    SWOT Analysis of EBL and HBL

SWOT analysis tool is used for measuring the effectiveness of banks (EBL and HBL). Effectiveness is one-dimensional concept that can be precisely measured by single clear out criterion. SWOT analysis is acronym for the internal strength, weakness of business, environment opportunities and threat facing by that business. It is a Systematic identification of the factors and the

strength that reflect the best match between them. It is based on the logic that an effective strategy maximizes business strength and opportunities but at the same time minimize its weakness and environment competitive threats. As a sample I took only two banks (i.e., EBL and HBL), these three banks are the commercial bank and have the common SWOT. They all have good position in market and equal strength, weakness, opportunity and threats. Strength and weakness are stand for internal environment and Opportunity and threats are stand for external environment. On the basis of above factors SWOT analysis of bank is carried out as under;

**SWOT analysis of Everest Bank Limited (EBL)**

**Strength:**

- ❖ It has strong financing position
- ❖ It is able to increase its Retail product
- ❖ EBL providing other function excepting accepting deposit and advancing loan (remittance, agency function)
- ❖ This bank performs the function of commercial bank
- ❖ It has good policy, performance to attract its customer.
- ❖ It has opened most of its business area so it is in growing stage.
- ❖ Well, trained and qualified personnel.
- ❖ It has already established itself as an innovative bank
- ❖ It has Well capital structure
- ❖ It has Systematic & computerized work

**Weakness:**

- ❖ Most of the branch offices are located to the urban area neglecting rural area.
- ❖ A large number of branches increase the operating cost of the bank.
- ❖ EBL is not to provide same service like all over the branch.
- ❖ The bank is not providing sufficient loan in agriculture sector, as it is an agricultural based country.

❖ Lack of providing loan to cottage & small industries to uplift the country agricultural products.

❖ Due to the Changeable management, bank couldn't showed better performance

## Opportunities:

❖ EBL aiming to raises its branches, which provide more opportunity to skilled personnel.

❖ Many people deposit their fund and take loan from it, which help to increase in profit of bank and general shareholders.

❖ Retail product plays important role in the economic development of the nation.

❖ Because of the large international net worth and source of capital base, the bank can obtain lower cost deposit.

❖ It can extend its network of branches.

❖ It should provide loan to introduces in the market

❖ It should provide Master Card, ATM card, Locker Facilities

❖ It should provide network system

## Threats:

❖ Competition in banking sector is rapidly increased, lost of joint venture banks are established in Nepal to provide advanced services to the Nepalese people.

❖ Government police relating to banking sector is conflicting

❖ The economic condition of the nation is consistence due to political situation

❖ Geographic expansion has help to make bank less vulnerable to local condition.

❖ Banks are facing with higher operating cost in comparison to reduced bank charge and interest earned in recent year.

## SWOT analysis of Himalayan Bank Limited (HBL)

**Strength:**

- ❖ It has good policy, performance to attract its customer.
- ❖ It has opened most of its business area so it is running smoothly
- ❖ Well, trained and qualified personnel.
- ❖ It has already established itself as an innovative bank
- ❖ It has Well capital structure
- ❖ It has Systematic & computerized work

**Weakness:**

- ❖ Most of the branch offices are located to the urban area neglecting rural area.
- ❖ A large number of branches increase the operating cost of the bank.
- ❖ HBL is not to provide same service like all over the branch
- ❖ The bank is not providing sufficient loan in agriculture sector, as it is an agricultural based country.
- ❖ Lack of providing loan to cottage & small industries to uplift the country agricultural products.
- ❖ Due to the Changeable management, bank couldn't showed better performance

**Opportunities:**

- ❖ HBL aiming to raises its branches, which provide more opportunity to skilled personnel.
- ❖ Many people deposit their fund and take loan from it, which help to increase in profit of bank and general shareholders.
- ❖ This plays important role in the economic development of the nation.
- ❖ Because of the large international net worth and source of capital base, the bank can obtain lower cost deposit
- ❖ It can extend its network of branches
- ❖ It should provide loan to introduces in the market
- ❖ It should provide Master Card, ATM card, Locker Facilities

❖ It should provide network system

**Threats:**

❖ Competition in banking sector is rapidly increased, lost of joint venture banks are established in Nepal to provide advanced services to the Nepalese people.

❖ Government police relating to banking sector is conflicting

❖ The economic condition of the nation is consistence due to political situation

❖ Geographic expansion has help to make bank less vulnerable to local condition.

❖ Banks are facing with higher operating cost in comparison to reduced bank charge and interest earned in recent year.

## 4.7 Analysis of Primary Data

Primary data are collected from commercial banks and customers as well as individual academicians. More than one respondent have been included from the same organization as far as possible. The respondent of the data cover personalities involving bank managers, officers and customers. This study is mainly based on questionnaire survey of the opinions of 45 respondents. Out of 45 respondents, 5 are commercial banks managers, 10 respondents are commercial bank officers, 5 are academicians and 25 respondents are commercial bank's customers. The respondents' opinions were collected on nine queries. The response on each querry and the associated analysis is presented below.

### 4.7.1 Pace of Retail Banking in Nepal

**Table 4.10**
**Pace of Retail Banking in Nepal**

| Option | No of Respondents | Percentage |
|--------|-------------------|------------|
| Increasing | 33 | 73.33 |

| | | |
|---|---|---|
| Decreasing | 4 | 8.89 |
| Don't Know | 8 | 17.78 |
| Total | 45 | 100 |

Source: Field Survey

**Figure: 4.13**

**Pace of Retail Banking in Nepal**
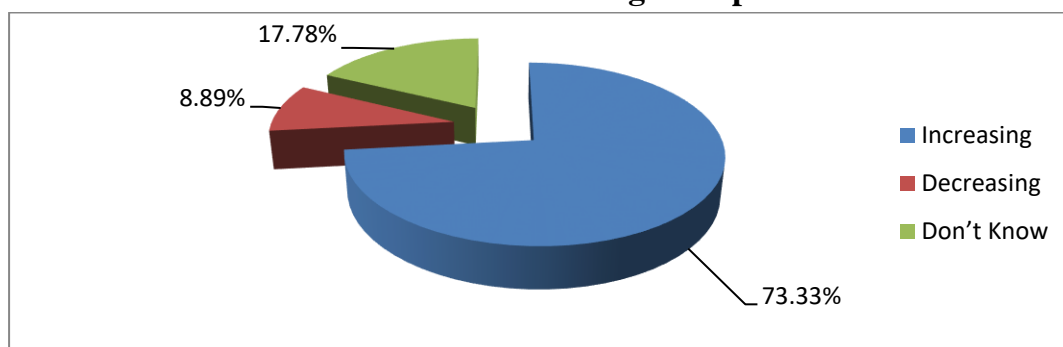


The first query was about the view of respondents regarding the present pace of retail banking trend in Nepal. 73.33 percent of the respondents agree that the retail banking trend is increasing, 8.89 percent respondents disagree and 17.78 percent respondents did not make any response.

### 4.7.2  Desirability of Retail Banking

**Table 4.11**

**Desirability of Retail Banking**

| Option | No of Respondents | Percentage |
|---|---|---|
| Yes | 34 | 75.55 |
| Know | 5 | 11.11 |
| Don't Know | 6 | 13.34 |
| Total | 45 | 100 |

Source: Field Survey

**Figure: 4.14**
**Desirability of Retail Banking**
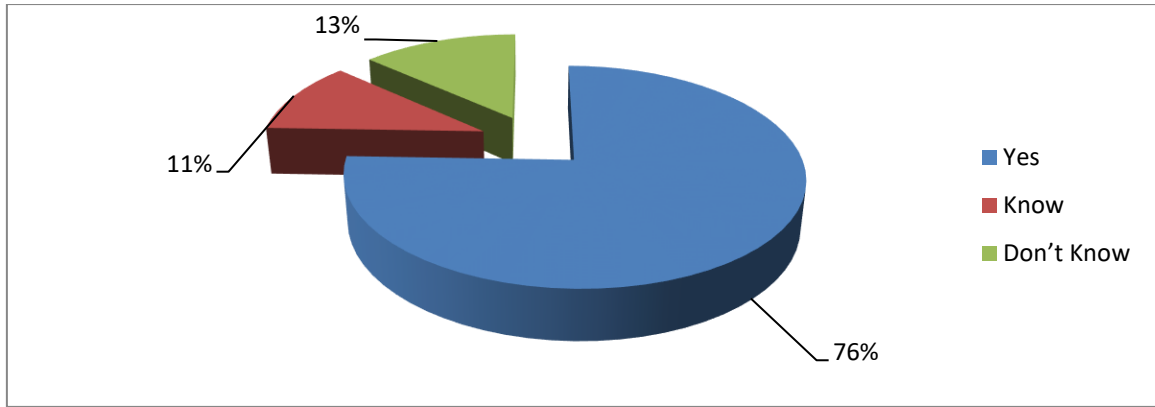
The second querry was about the desirability of retail banking to both customers and banks. 75.55 percent respondent showed their positive desirability, 11.11 percent of them showed negative desirability while 13.34 percent respondents were neutral regarding such desirability.

### 4.7.3  Use of Retail Banking Product

**Table 4.12**

**Use of Retail Banking Product**

| Option | No of Respondents | Percentage |
|---|---|---|
| Yes | 24 | 53.33 |
| Know | 21 | 46.67 |
| Don't Know | 0 | 0 |
| Total | 45 | 100 |

Source: Field Survey

**Figure: 4.15**
**Use of Retail Banking Product**
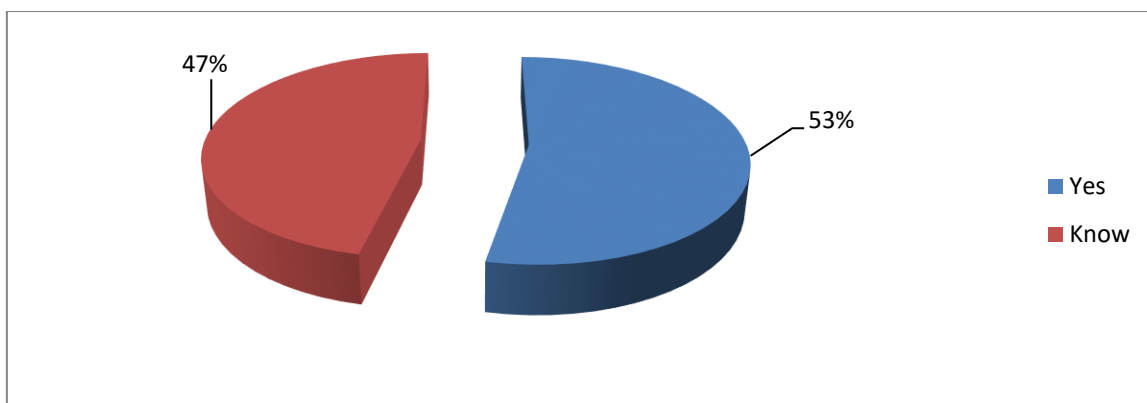
The third query was regarding the use of retail banking product. The respondents were enquired whether they use or buy retail banking product. 53.33 percent respondents use such product and 46.67 percent respondents do not use such product. In this query majority of respondents still have not purchased retail banking product offered by bank.

### 4.7.4 Preference for Retail Banking Product

In the fourth question, the respondents were asked to rank the different retail banking product in terms of their preference. The rank provided by the respondents is calculated and their preference was ranked in terms of the respondents.

**Table 4.13**

**Preference for Retail Banking Product**

| Option | Rank | | | Ranking |
|---|---|---|---|---|
| | 1 | 2 | 3 | |
| Home Loan | 24 | 17 | 4 | 1 |
| Auto Loan | 19 | 22 | 4 | 2 |
| Personal Loan | 2 | 6 | 37 | 3 |

Source: Field Survey

**Figure: 4.16**

**Preference for Retail Banking Product**
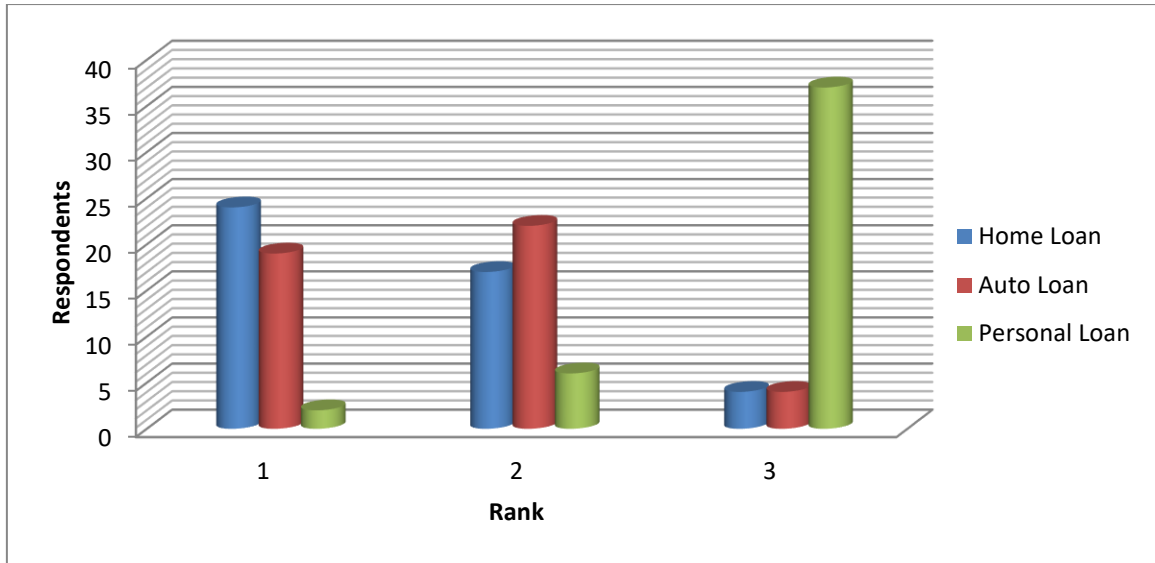
On the basis of ranking provided, respondents preferred home loan the most, followed by auto loan and personal loan respectively.

## 4.7.5 Motivating Factors for Retail Banking Product

The fifth querry was about the factors that motive to get loan in the market. Six different statement were provided and requested to assign the rank as one for they strongly agree, two for agree, three for they do not know, four for disagree and five for strongly disagree.

**Table 4.14**

**Motivating Factor for Retail Banking Product for Customer**

| Factor | Rank | | | | | Ranking |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | |
| Low interest rate | 34 | 5 | 2 | 2 | 1 | 1 |
| Promotion and advertisement campaign | 4 | 33 | 3 | 3 | 2 | 2 |
| Innovation product offered by Bank | 4 | 3 | 32 | 3 | 3 | 3 |
| To maintain social status | 3 | 2 | 2 | 36 | 2 | 4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| For better lifestyle | 2 | 2 | 3 | 1 | 37 | 5 |
| To make future secure | 2 | 2 | 3 | 1 | 37 | 6 |

Source: Field Survey

Among the six factors provided which motivate the respondents to get retail loan from the bank, the respondents preferred low interest rate the most followed by the promotion and advertisement campaign, innovative product, social status, better life style and to secure the future. Which shown in bellow figure.

**Figure: 4.17**

**Motivating Factor for Retail Banking Product for Customer**
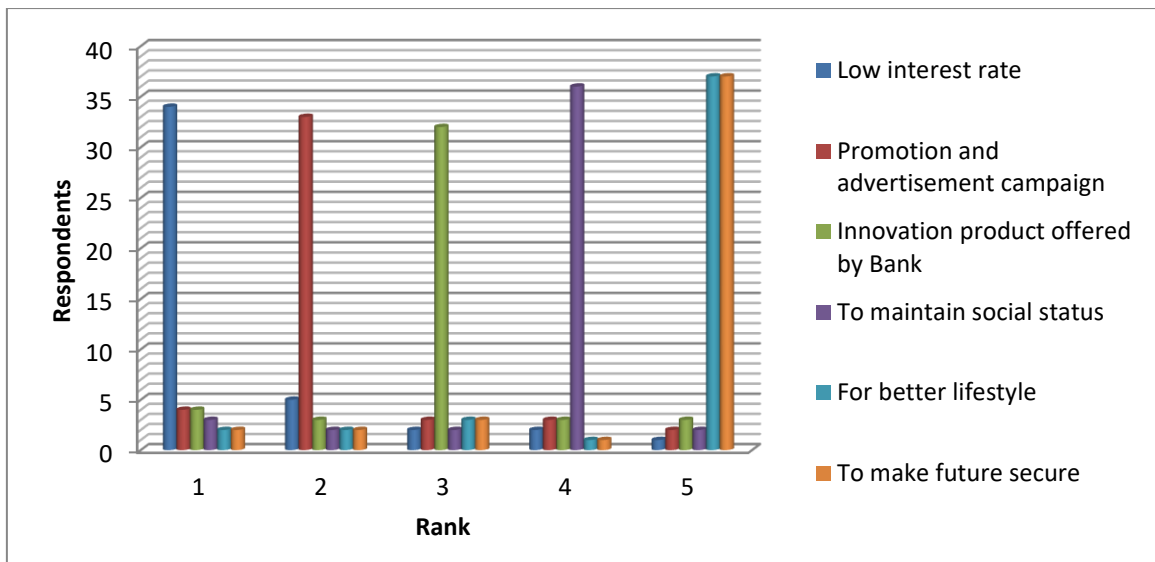


### 4.7.6  Role of Retail Banking Product to help Increase Performance

**Figure: 4.15**

**Role of Retail Banking Product to help Increase Performance**

| Option | No of Respondents | Percentage |
|---|---|---|
| Yes | 35 | 77.78 |
| Know | 8 | 17.78 |
| Don't Know | 2 | 4.44 |
| Total | 45 | 100 |

Source: Field Survey

**Figure: 4.18**

**Role of Retail Banking Product to help Increase Performance**
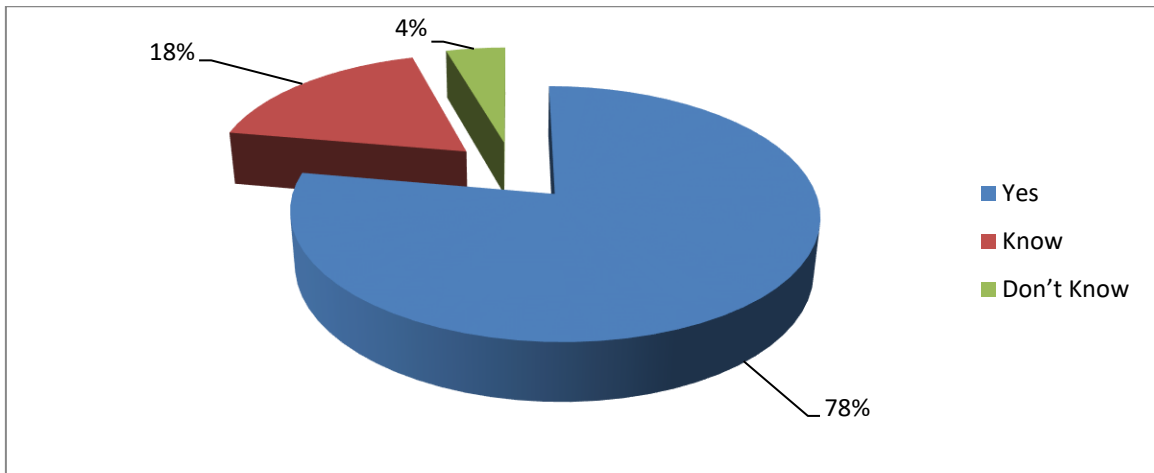


The sixth querry was about the role of retail banking product to increase the overall performance of the banks. The respondents were asked whether the retail banking product helps improve performance or not. 77.78 percent respondents agreed that retail banking helps to increase overall performance of the bank, 17.78 percent respondents are disagreed about the said role and 4.44 percent respondents were neutral about the querry.

## 4.7.7 Factors Affected by Retail Banking Product to Improve Banks Performance.

The seventh querry was about the factors used to measure banks performance affected by the retail banking product. Five such factors were provided and the respondents were asked to rank the factors on the basis of the effect of retail banking product on such factors to improve the bank's performance.

**Table 4.16**

**Factor Affected by Retail Banking to Increase Performance**

| Factor | Rank | Ranking |
|---|---|---|

|  | 1 | 2 | 3 | 4 | 5 |  |
|---|---|---|---|---|---|---|
| Reduce NPA | 38 | 3 | 2 | 1 | 1 | 1 |
| Increase Bank's profit | 2 | 37 | 2 | 2 | 2 | 2 |
| Increase quality service and quick delivery | 2 | 2 | 38 | 2 | 1 | 3 |
| Helps to reduce cost | 2 | 2 | 2 | 38 | 1 | 4 |
| Helps to technology innovation | 1 | 1 | 1 | 2 | 40 | 5 |

Source: Field Survey

**Figure: 4.19**

**Factor Affected by Retail Banking to Increase Performance**
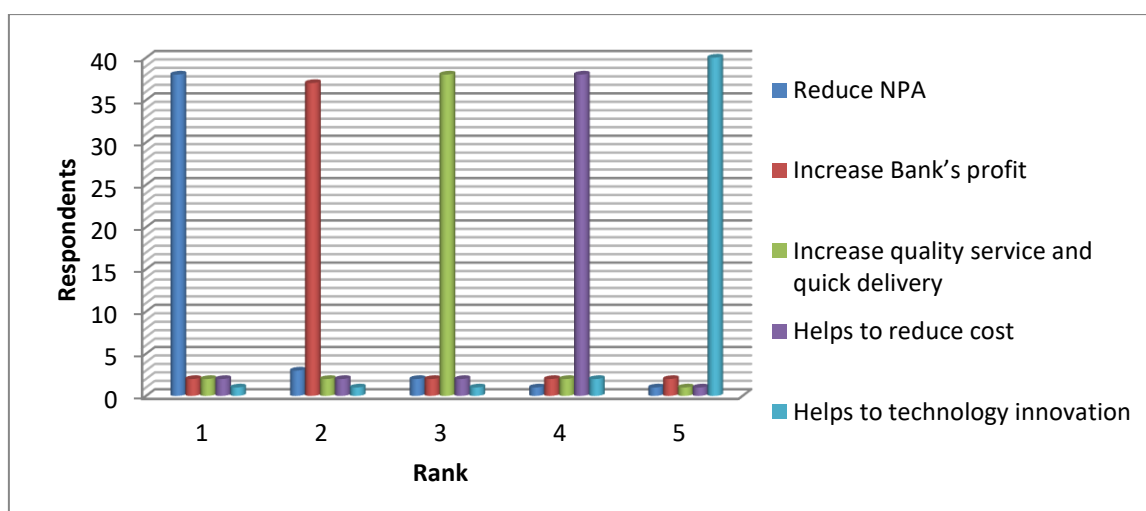


Reduction in non performance assets (NPA) has been found to be the most relevant factor of retail banking in the opinion of respondent followed by increase in bank's profit and quality service and quick delivery. Respondents rank increase quality service and quickly delivery to customer the third. Respondents ranked cost reduction the fourth and retail banking helps to technology innovation the fifth.

## 4.7.8 Difficulties Faced by Commercial Banks

Following table is the collection of respondent's opinion as Nepalese commercial bank faces difficulties to the growth of retail banking.

**Table 4.17**

**Difficulties Nepalese Commercial Banks face to increase Retail Banking**

| Factor | Rank | | | | | Ranking |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | |
| The legal process is tedious and lengthy | 35 | 5 | 2 | 2 | 1 | 1 |
| The bank has not sufficient customer segment to match the requirements of customer | 6 | 34 | 2 | 2 | 1 | 2 |
| The staff are not highly competent | 2 | 3 | 33 | 4 | 3 | 3 |
| The bank faces difficulties from the competitive market | 1 | 2 | 4 | 32 | 6 | 4 |
| The present rules and regulation is not sufficient for retail banking growth | 1 | 1 | 4 | 5 | 34 | 5 |

Source: Field Survey

**Figure: 4.20**

**Difficulties Nepalese Commercial Banks face to increase Retail Banking**
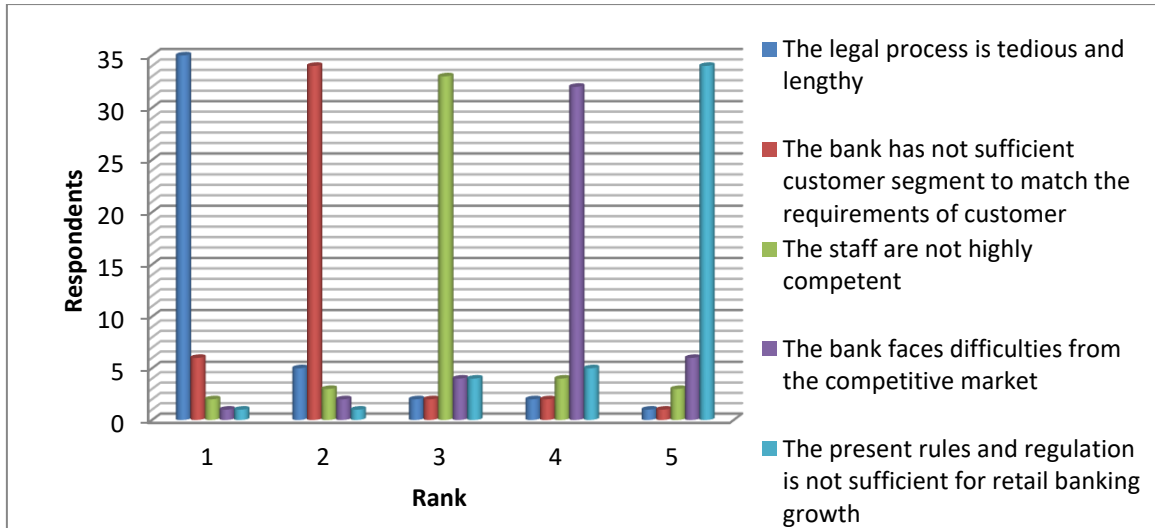
The above table shows that the first relevant difficulty to be faced by Nepalese commercial bank for the growth of retail banking is the lengthy and tedious legal process. Insufficient customer segment has been found to be second relevant factor to be faced by commercial bank in the opinion of respondent followed by less competent staff and increase in competitive market. They ranked insufficient rules and regulation the fifth.

## 4.8   Major Findings of the Study

### (A)   Finding from the Secondary Data

❖ The amount of home loan for sample banks under the study has an increasing trend. The amount of loan for EBL & HBL is Rs. 1114.48 million and Rs. 291.37 million respectively in F/Y 2007/08. The position of home loan for EBL and HBL is in better position.

❖ All the banks have provided greater proportion of their funds on retail banking. The contributions of home loan in total loan and advance by EBL have increasing trend and HBL has fluctuating and increasing trend. The average growth rate of home loan for these banks are 41% and 42% respectively.

❖ The contribution of home loan in total loan and advance of all sample banks has gained robust growth the amount of Vehicles Loan for all sample banks under the study is in increasing trend. The amount of

Vehicles Loan for EBL and HBL were Rs. 398.28 million and Rs 287.23 million in 2007/08.

❖ The position of Vehicles Loan for EBL and HBL are in better position. The contribution of Vehicles Loan in total loan and advance for EBL was 5.81% and for HBL was 5.45% in 2007/08 and it has reached 9.54 and 7.32% respectively in 2011/12.

❖ The contribution of Vehicles Loan in total loan and advance by all the banks are in increasing trend in amount. But in contribution in loan and advance EBL and HBL shows the better performance in the study period.

❖ The amount of personal loan for EBL and HBL is Rs. 620.36 million and Rs. 145 million respectively in 2007/08. And these amounts have increased to Rs. 2192.80 million and Rs. 699.34 respectively in 2010/11. The position of personal loan for EBL and HBL is in better position.

❖ The contribution of personal loan to total loan and advance for EBL was 9.5% and for HBL was 2.75% respectively in 2007/08 and it has reached to 8.96% and 4.73% respectively in 2010/11 while the percentage of EBL is in fluctuating and decreasing trend and HBL is in increasing trend.

❖ The contribution of personal loan in total loan and advance of HBL is in increasing trend. The contribution of personal loan and advance of EBL is in decreasing trend.

❖ It is found that positive correlation coefficient between home loan and total loan and advance of more than 0.998 of EBL and 0.982 for HBL. As well, it is also found in both banks that coefficient of determination of more than 99% for EBL and 96% for HBL. These signify that there is significant relationship between correlation coefficient of home loan and total loan and advance of EBL and HBL.

❖ This study has found that highly positive correlation between Vehicles Loan and total loan and advance of more than 0.96 in EBL and HBL.

These signify that there is significant relation between correlation coefficient of Vehicles Loan and total loan and advance of EBL and HBL.

❖ This study has found that highly positive correlation between personal loan and total loan and advance of more than 0.99 in both banks. As well it is also found in both banks that coefficient of determination of more than 98% these signify that there is significant relationship between correlation coefficient of personal loan and total advance of EBL and HBL.

❖ From the trend analysis, it is found that the amount of home loan of all banks has increasing trend. The rate of change and mean value of EBL is higher than HBL. It is found that the amount of personal loan of all the here banks is in increasing trend. The rate of change and mean value of EBL is higher than HBL and as so on in personal loan also.

## (B)    Findings from Primary Data

❖ Most respondent agree that there is increasing trend in retail banking sector in Nepalese market.

❖ Most respondent agree that the retail banking is the good deal for all customer and banks while minority respondents are disagree and Majority respondents said that  they  are unknown about retail banking.

❖ Majority of respondent have already purchased retail banking product offered by bank. Minority respondents are going to purchased the retail banking products.

❖ On the basis of the responses of respondents home loan is ranked as first by Nepalese customers and academicians followed by Vehicles loan.

❖ Most 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 increase the overall performance of the commercial banks by reducing the NPA and increasing the bank's profit.

❖ Most of the respondents agree that the tedious and lengthy legal procedures are barrier in the growth of retail banking.

❖ On the basis of the presentation of the responses; home loan is ranked the first by the respondents. Auto loan seems to be more preferred among the Nepalese customers after home loan and is followed by personal loan scheme.

❖ Among the five factors provided, the respondent ranked that the customer would motivate to get the loan in the market if the loan interest rate decreases. Secondly Differential innovative products would tend to motivate the customers. Secondly they ranked that they are motivated by Promotion and advertisement campaigns, fourthly is maintain social status and better life style and fifth position respectively.

❖ Majority of respondent indicates that the Nepalese commercial bank faces many difficulties in the growth of retail banking.

❖ Reduction in nonperforming assets (NPA) has been found to be the most relevant factor of retail banking in the opinion of respondent followed by increase in bank's profit and quality service and quick delivery.

# CHAPTER-V

# SUMMARY, CONCLUSION AND RECOMMENDATION

## 5.1    Summary

Nepalese banking industry has been suffering an intense competition because of entry of new banks and many financial institutions. This has led the banks to operate under thin interest spreads, declining margins and rising costs this was not the case until two years ago. Banks were enjoying a lot of business because of expansion in the economy.

In the recent days, many commercial bank, development banks and financial institutions are operating in the economy to assist in the process of economic development of the country. Various institutions are raising their funds and no. of branches to provide more reliable service to people. Due to high and unfair competition between the financial institutions, the high amount of deposit collected from public is not properly invested. It is due to lack of demand for fund. With the changing pattern of the economy, these financial institution need to search for  the sources of investment with more diversified products.

This study *"Present Scenario of Retail Banking in Nepal"* is primarily prepaid for the partial fulfillment of the requirement of master of business studies (MBS). This study is mainly based on secondary and  primary  data provided by  concerned banks  and  respondents.  Among  the 32 listed commercial banks two major consumer friendly commercial banks are selected as sample. The main objective of the study is to find out position and trend of retail banking in Nepal. Most of the listed commercial banks are of similar nature and taken to the sample similar nature banks both are providing same types of service to the customers. Information is collected during the period 2007/08 to 2011/12. The collected information is presented, analyzed and conclusion is drawn from the study.

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.

Research methodology describes the method and process applied in the entire aspect of the study. It is way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. 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. At the end of the chapter four the researcher had drawn the major findings through both secondary and primary data.

The amount of home loan for sample banks under the study has an increasing trend. The amount of loan for EBL & HBL is Rs. 1114.48 million and Rs. 291.37 million respectively in F/Y 2007/08. The position of home loan for EBL and HBL is in better position.

All the banks have provided greater proportion of their funds on retail banking. The contributions of home loan in total loan and advance by EBL have increasing trend and HBL has fluctuating and increasing trend. The average growth rate of home loan for these banks are 41% and 42% respectively.

Majority of the respondents showed their agreement that the retail banking helps to increase the overall performance of the commercial banks by reducing the NPA and increasing the bank's profit. Most of the respondents

agree that the tedious and lengthy legal procedures are barrier in the growth of retail banking.

## 5.2   Conclusion

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. 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. 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. New kinds of management skills are required to manage the retail lending portfolio.

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. 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. This study "Strategies and *"Present Scenario of Retail Banking in Nepal"* tried to analyze the existing situation of retail banking in Nepal based on the data provided by the financial statement as

well as other concerned information. Based on the data analysis and finding of the result.

The contribution of home loan in total loan and advance of all sample banks has gained robust growth the amount of Vehicles Loan for all sample banks under the study is in increasing trend. The amount of Vehicles Loan for EBL and HBL were Rs. 398.28 million and Rs 287.23 million in 2007/08.

The position of Vehicles Loan for EBL and HBL are in better position. The contribution of Vehicles Loan in total loan and advance for EBL was 5.81% and for HBL was 5.45% in 2007/08 and it has reached 9.54 and 7.32% respectively in 2011/12. The contribution of Vehicles Loan in total loan and advance by all the banks are in increasing trend in amount. But in contribution in loan and advance EBL and HBL shows the better performance in the study period. The amount of personal loan for EBL and HBL is Rs. 620.36 million and Rs. 145 million respectively in 2007/08. And these amounts have increased to Rs. 2192.80 million and Rs. 699.34 respectively in 2010/11. The position of personal loan for EBL and HBL is in better position.

The contribution of personal loan to total loan and advance for EBL was 9.5% and for HBL was 2.75% respectively in 2007/08 and it has reached to 8.96% and 4.73% respectively in 2010/11 while the percentage of EBL is in fluctuating and decreasing trend and HBL is in increasing trend. The contribution of personal loan in total loan and advance of HBL is in increasing trend. The contribution of personal loan and advance of EBL is in decreasing trend.

It is found that positive correlation coefficient between home loan and total loan and advance of more than 0.998 of EBL and 0.982 for HBL. As well, it is also found in both banks that coefficient of determination of more than 99% for EBL and 96% for HBL. These signify that there is significant relationship between correlation coefficient of home loan and total loan and advance of EBL and HBL. This study has found that highly positive correlation between

Vehicles Loan and total loan and advance of more than 0.96 in EBL and HBL. These signify that there is significant relation between correlation coefficient of Vehicles Loan and total loan and advance of EBL and HBL.

This study has found that highly positive correlation between personal loan and total loan and advance of more than 0.99 in both banks. As well it is also found in both banks that coefficient of determination of more than 98% these signify that there is significant relationship between correlation coefficient of personal loan and total advance of EBL and HBL. From the trend analysis, it is found that the amount of home loan of all banks has increasing trend. The rate of change and mean value of EBL is higher than HBL. It is found that the amount of personal loan of all the here banks is in increasing trend. The rate of change and mean value of EBL is higher than HBL and as so on in personal loan also.

Most respondent agree that there is increasing trend in retail banking sector in Nepalese market. Most respondent agree that the retail banking is the good deal for all customer and banks while minority respondents are disagree and Majority respondents said that they are unknown about retail banking. Majority of respondent have already purchased retail banking product offered by bank. Minority respondents are going to purchased the retail banking products.

Among the five factors provided, the respondent ranked that the customer would motivate to get the loan in the market if the loan interest rate decreases. Secondly Differential innovative products would tend to motivate the customers. Secondly they ranked that they are motivated by Promotion and advertisement campaigns, fourthly is maintain social status and better life style and fifth position respectively. Majority of respondent indicates that the Nepalese commercial bank faces many difficulties in the growth of retail banking. Reduction in nonperforming assets (NPA) has been found to be the most relevant factor of retail banking in the opinion of respondent followed by increase in bank's profit and quality service and quick delivery.

## 5.3    Recommendations

Based on the study, it is found that the retail banking is in increasing trend. Among the sample has disbursed higher amount of home loan and 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.

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

- Another factor hindering the growth of retail bank is its interest rate. So the banks are requested to lower down the interest rate.

- Bank should investigate for increasing lending opportunities by adopting new strategies and the bank should be innovation of product which is match the requirements of the customer segments.

- Bank should effort to increase to cover the wide areas by increasing the branch network as well as more geographical coverage. In the new area, bank should make effort to tap these area consumers by providing the product suitable and reasonable for them rather than imitated product.

- Nepal is an agricultural country, that's why most of the population settles in rural areas. Agriculture related financial product like agricultural financing, micro credit should be introduced and prioritized by banks to promote this area.

- Nepalese economy is depending on the remittance income. So, bank should focus this area by providing products like remittance card, money transfer and also providing the foreign employment loan etc.

- The procedure to get loan is quite tedious and lengthy. So it is suggested to make the procedure simple and easy.

- Government should provide a regulatory climate conducive to the establishment of private specialization retail banking institutions by

allowing them to compete effectively for savings and respond to market demands for loan rates.

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# Appendices

## Appendix-1

### Home Loan: Contribution and Average Growth Rate of EBL

| Year | Home loan (X) | Total Loan & Advance (Y) | % of home loan on Total loan & advance | Growth = $\dfrac{Ending - Beginning \; (X)}{Beginning}$ | Growth = $\dfrac{Ending - Beginning \; (Y)}{Beginning}$ |
|------|------|------|------|------|------|
| 2007/08 | 1114.48 | 6851.21 | 16.26 | 0 | 0 |
| 2008/09 | 1815.48 | 9801.31 | 18.52 | 0.62 | 0.43 |
| 2009/10 | 2924.11 | 13664.08 | 21.4 | 0.61 | 0.39 |
| 2010/11 | 4093.75 | 18836.44 | 21.73 | 0.40 | 0.38 |
| 2011/12 | 5825.4 | 24469.6 | 23.80 | 0.42 | 0.30 |
| Total | 15773.22 | 73622.64 | 101.71 | 2.05 | 1.5 |
| Average Growth Rate | 41 | 30 | | | |

| For Home Loan (X) | For Loan & Advance (Y) |
|------|------|
| Average Growth rate = $\dfrac{Total\ Growth}{No.of\ Years} \times 100$ | Average Growth rate = $\dfrac{Total\ Growth}{No.of\ Years} \times 100$ |
| $= \dfrac{2.05}{5} \times 100$ | $= \dfrac{1.5}{5} \times 100$ |
| $= \ 41$ | $= \ 30$ |

Source: Annual Report and Internal Sources of EBL & HBL

# Appendix-2

## Home Loan:  Contribution and Average Growth Rate of HBL

| Year | Home loan (X) | Total Loan & Advance (Y) | % of home loan on Total loan and advance | Growth = $\dfrac{Ending-Beginning\,(X)}{Beginning}$ | Growth = $\dfrac{Ending-Beginning\,(Y)}{Beginning}$ |
|---|---|---|---|---|---|
| 2007/08 | 291.37 | 5264.28 | 4.76 | 0 | 0 |
| 2008/09 | 318.27 | 6891.86 | 4.62 | 0.26 | 0.30 |
| 2009/10 | 514.31 | 8929.01 | 5.75 | 0.62 | 0.31 |
| 2010/11 | 653.89 | 11522.38 | 5.67 | 0.27 | 0.29 |
| 2011/12 | 1020.4 | 14795.26 | 6.90 | 0.56 | 0.28 |
| Total | | | | 1.71 | 1.18 |
| Average Growth | 34 | 23.6 | | | |

| For Home Loan (X) | For  Loan & Advance (Y) |
|---|---|
| Average Growth rate = $\dfrac{Total\ Growth}{No.of\ Years} \times 100$ <br><br> $= \dfrac{1.71}{5} \times 100$ <br><br> $= 34.2$ | Average Growth rate $= \dfrac{Total\ Growth}{No.of\ Years} \times 100$ <br><br> $= \dfrac{1.18}{5} \times 100$ <br><br> $= 23.6$ |

Source: Annual Report and Internal Sources of EBL & HBL

**Appendix-3**

**Auto Loan: Contribution and Average Growth Rate of EBL (In Million)**

| Year | Auto loan (X) | Total Loan & Advance (Y) | % of Auto loan on Total loan and advance | Growth = $\frac{Ending-Beginning\,(X)}{Beginning}$ |
|---|---|---|---|---|
| 2007/08 | 398.28 | 6851.21 | 5.81 | 0 |
| 2008/09 | 641.13 | 9801.31 | 6.54 | 0.12 |
| 2009/10 | 985.18 | 13664.08 | 7.20 | 0.54 |
| 2010/11 | 1313.19 | 18836.44 | 6.97 | 0.33 |
| 2011/12 | 2336.8 | 24469.6 | 9.54 | 0.78 |
| Total | | | | 1.77 |
| Average Growth | 35.4 | | | |

For Auto Loan (X)

Average Growth rate = $\frac{Total\ Growth}{No.of\ Years} \times 100$

$$= \frac{1.77}{5} \times 100$$

$$= 35.4$$

Source: Annual Report and Internal Sources of EBL & HBL

**Appendix-4**

**Auto Loan:  Contribution and Average Growth Rate of HBL**

| Year | Auto Loan (X) | Total Loan & Advance (Y) | % of Auto Loan on Total loan and advance | Growth = $\dfrac{Ending-Beginning\ (X)}{Beginning}$ |
|---|---|---|---|---|
| 2007/08 | 287.23 | 5264.28 | 5.45 | 0 |
| 2008/09 | 493.17 | 6891.86 | 7.16 | 0.31 |
| 2009/10 | 653.6 | 8929.01 | 7.32 | 0.33 |
| 2010/11 | 782.44 | 11522.38 | 6.79 | 0.20 |
| 2011/12 | 1308.08 | 14795.26 | 8.84 | 0.67 |
| Total | | | | 1.51 |
| Average Growth | 30.2 | | | |

For Auto Loan (X)

Average Growth rate = $\dfrac{Total\ Growth}{No.of\ Years} \times 100$

$$= \dfrac{1.51}{5} \times 100$$

$$= 30.2$$

Source: Annual Report and Internal Sources of EBL & HBL

# Appendix-5

## Personal Loan:  Contribution and Average Growth Rate of EBL

| Year | Personal Loan (X) | Total Loan & Advance (Y) | % of Personal loan on Total loan and advance | Growth = $\dfrac{Ending - Beginning\ (X)}{Beginning}$ |
|---|---|---|---|---|
| 2007/08 | 620.36 | 6851.21 | 9.05 | 0 |
| 2008/09 | 992.56 | 9801.31 | 10.13 | 0.11 |
| 2009/10 | 1265.48 | 13664.08 | 9.26 | 0.27 |
| 2010/11 | 1632.47 | 18836.44 | 8.67 | 0.29 |
| 2011/12 | 2192.8 | 24469.6 | 8.96 | 0.34 |
| Total | | | | 1.01 |
| Average Growth | 20.2 | | | |

For Personal Loan (X)

$$Average\ Growth\ rate = \frac{Total\ Growth}{No.of\ Years} \times 100$$

$$= \frac{1.01}{5} \times 100$$

$$= 20.2\%$$

Source: Annual Report and Internal Sources of EBL & HBL

**Appendix-6**

**Personal Loan: Contribution and Average Growth Rate of HBL**

| Year | Personal Loan (X) | Total Loan & Advance (Y) | % of Personal loan on Total loan and advance | Growth = $\dfrac{Ending-Beginning\ (X)}{Beginning}$ |
|---|---|---|---|---|
| 2007/08 | 145 | 5264.28 | 2.75 | 0 |
| 2008/09 | 215 | 6891.86 | 3.12 | 0.13 |
| 2009/10 | 398 | 8929.01 | 4.46 | 0.85 |
| 2010/11 | 519.20 | 11522.38 | 4.51 | 0.30 |
| 2011/12 | 699.34 | 14795.26 | 4.73 | 0.35 |
| Total | | | | 1.63 |
| Average Growth | 32.6 | | | |

For Personal Loan (X)

Average Growth rate $= \dfrac{Total\ Growth}{No.of\ Years} \times 100$

$\qquad\qquad = \dfrac{1.63}{5} \times 100$

$\qquad\qquad = 32.6$

Source: Annual Report and Internal Sources of EBL & HBL

**Appendix-7**

**Correlation coefficient between Home Loan and Total Loan & Advance for EBL**

**(in Million)**

| Year | Home Loan (x) | Total Loan & Advance (y) | XY | $X^2$ | $Y^2$ |
|---|---|---|---|---|---|
| 2007/08 | 1114.48 | 6851.21 | 7635536.521 | 1242065.67 | 46939078.46 |
| 2008/09 | 1815.48 | 9801.31 | 17794082.28 | 3295967.63 | 96065677.72 |
| 2009/10 | 2924.11 | 13664.08 | 39955272.97 | 8550419.292 | 186707082.2 |
| 2010/11 | 4093.75 | 18836.44 | 77111676.25 | 16758789.06 | 354811471.9 |
| 2011/12 | 5825.4 | 24469.6 | 142545207.8 | 33935285.16 | 598761324.2 |
| Total | 15773.2 | 73622.64 | 285041775.8 | 63782526.81 | 1283284634 |

Source: Annual Report and Internal Sources of EBL & HBL

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

r= 0.998

$r^2$ =0.996

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.0007$$

$$6 \times \text{P.E.} = 6 \times 0.0007 = 0.004$$

**Appendix-8**

**Correlation coefficient between Home Loan and Total Loan & Advance for HBL**

| Year | Home Loan | Total Loan & Advance | XY | $X^2$ | $Y^2$ |
|---|---|---|---|---|---|
| 2007/08 | 251.37 | 5264.28 | 1323282.064 | 63186.877 | 27712643.9 |
| 2008/09 | 318.27 | 6891.86 | 2193472.282 | 101295.8 | 47497734 |
| 2009/10 | 514.31 | 8929.01 | 4592279.133 | 264514.8 | 79727220 |
| 2010/11 | 653.89 | 11522.38 | 7534369.058 | 427572.1 | 132765241 |
| 2011/12 | 1020.4 | 14795.26 | 15097083.3 | 1041216 | 218899719 |
| Total | 2758.24 | 47402.79 | 30740485.84 | 1897786 | 506602557 |

Source: Annual Report and Internal Sources of EBL & HBL

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

So, r= 0.9827

$r^2$ =0.9657

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.012$$

$$6 \times \text{P.E.} = 6 \times 0.012$$

$$= 0.072$$

**Appendix-9**

**Correlation coefficient between Auto Loan and Total Loan & Advance for EBL**

| Year | Auto Loan | Total Loan & Advance | XY | $X^2$ | $Y^2$ |
|------|-----------|---------------------|-----|-------|-------|
| 2007/08 | 398.28 | 6851.21 | 2728699.919 | 158626.9584 | 46939078.46 |
| 2008/09 | 641.13 | 9801.31 | 6283913.88 | 411047.6769 | 96065677.72 |
| 2009/10 | 985.18 | 13664.08 | 13461578.33 | 970579.6324 | 186707082.2 |
| 2010/11 | 1313.19 | 18836.44 | 24735824.64 | 1724467.976 | 354811471.9 |
| 2011/12 | 2336.8 | 24469.6 | 57180561.28 | 5460634.24 | 598761324.2 |
| Total | 5674.58 | 73622.64 | 104390578 | 8725356.484 | 1283284634 |

Source: Annual Report and Internal Sources of EBL & HBL

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

$$r = 0.9653$$
$$R^2 = 0.9318$$

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.023$$
$$6 \times \text{P.E.} = 6 \times 0.023$$
$$= 0.0138$$

## Appendix-10

**Correlation coefficient between Auto Loan and Total Loan & Advance for HBL**

| Year | Auto Loan | Total Loan & Advance | XY | $X^2$ | $Y^2$ |
|------|-----------|---------------------|-----|-------|-------|
| 2007/08 | 287.23 | 5264.28 | 1512059.144 | 82501.073 | 27712643.92 |
| 2008/09 | 493.17 | 6891.86 | 3398858.596 | 243216.65 | 47497734.26 |
| 2009/10 | 653.6 | 8929.01 | 5836000.936 | 427192.96 | 79727219.58 |
| 2010/11 | 782.44 | 11522.4 | 9015571.007 | 612212.35 | 132765240.9 |
| 2011/12 | 1308.08 | 14795.3 | 19353383.7 | 1711073.3 | 218899718.5 |
| Total | 3524.52 | 47402.8 | 39115873.38 | 3076196.3 | 506602557.2 |

Source: Annual Report and Internal Sources of EBL & HBL

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

$$r = 0.9638$$
$$r^2 = 0.9289$$

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.0711$$

$$6 \times \text{P.E.} = 6 \times 0.0711$$
$$= 0.4265$$

## Appendix-11

**Correlation coefficient between Personal Loan and Total Loan & Advance for EBL**

| Year | Personal Loan | Total Loan & Advance | XY | $X^2$ | $Y^2$ |
|---|---|---|---|---|---|
| 2007/08 | 620.36 | 6851.21 | 4250216.636 | 384846.53 | 46939078.46 |
| 2008/09 | 992.56 | 9801.31 | 9728388.254 | 985175.354 | 96065677.72 |
| 2009/10 | 1265.48 | 13664.1 | 17291619.96 | 1601439.63 | 186707082.2 |
| 2010/11 | 1632.47 | 18836.4 | 30749923.21 | 2664958.3 | 354811471.9 |
| 2011/12 | 2192.8 | 24469.6 | 53656938.88 | 4808371.84 | 598761324.2 |
| Total | 6703.67 | 73622.6 | 115677086.9 | 10444791.7 | 1283284634 |

Source: Annual Report and Internal Sources of EBL & HBL

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

$$r = 0.9959$$
$$r^2 = 0.9918$$

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.0028$$

$$6 \times \text{P.E.} = 6 \times 0.0028$$
$$= 0.0166$$

**Appendix-12**

**Correlation coefficient between Personal Loan and Total Loan & Advance for HBL**

| Year | Personal Loan | Total Loan & Advance | XY | $X^2$ | $Y^2$ |
|---|---|---|---|---|---|
| 2007/08 | 145 | 5264.28 | 763320.6 | 21025 | 27712643.92 |
| 2008/09 | 215 | 6891.86 | 1481749.9 | 46225 | 47497734.26 |
| 2009/10 | 398 | 8929.01 | 3553745.98 | 158404 | 79727219.58 |
| 2010/11 | 519.2 | 11522.4 | 5982419.696 | 269568.64 | 132765240.9 |
| 2011/12 | 699.34 | 14795.3 | 10346917.13 | 489076.436 | 218899718.5 |
| Total | 1976.54 | 47402.8 | 22128153.31 | 984299.076 | 506602557.2 |

Source: Annual Report and Internal Sources of EBL & HBL

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

$$r = \quad 0.9915$$

$$r^2 = 0.9831$$

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.0057$$

$$6 \times \text{P.E.} = 6 \times 0.0057$$

$$= 0.0342$$

**Appendix-13**

**Trend Analysis of Home Loan for EBL (in Million)**

| Year (x) | Home Loan (y) | X=x-3 | $x^2$ | XY | Yc = a +bx |
|---|---|---|---|---|---|
| 2007/08(1) | 1114.48 | -2 | 4 | -2229 | 814.62 |
| 2008/09(2) | 1815.48 | -1 | 1 | -1815.5 | 1984.63 |
| 2009/10(3) | 2924.11 | 0 | 0 | 0 | 3154.64 |
| 2010/11(4) | 4093.75 | 1 | 1 | 4093.75 | 4324.65 |
| 2011/12(5) | 5825.4 | 2 | 4 | 11650.8 | 5494.66 |
| N =5 | $\sum y$ = **15773.22** | $\sum x = 0$ | $\sum X^2 = 10$ | $\sum xy =$ **11700.11** | |
| 2012/13(6) | | 3 | | | 6664.67 |
| 2013/14(7) | | 4 | | | 7834.68 |
| 2014/15(8) | | 5 | | | 9004.69 |
| 2015/16(9) | | 6 | | | 10174.7 |

Source: Annual Report and Internal Sources of EBL & HBL

The number of years is even i.e. N=5, therefore, the origin is taken at x=3

The equation of trend line is

$$Yc = a +bx$$

$$As, \ \sum x = 0$$

$$a = \frac{\sum Y}{N} = \frac{15773.22}{5} = 3154.64$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{11700.11}{10} = 1170.011$$

Hence the origin is 3 and the trend line is

Yc = 3154.64 + 1170.011X      eq. …………………….. (1)

Note: The trend value is calculated by solving the equitation (1)

**Trend analysis of Home Loan for HBL (in Million)**

| Year (x) | Home Loan (y) | X=x-3 | $x^2$ | XY | Yc = trend value |
|---|---|---|---|---|---|
| 2007/08(1) | 251.32 | -2 | 4 | -502.64 | 176.89 |
| 2008/09(2) | 318.27 | -1 | 1 | -318.27 | 364.26 |
| 2009/10(3) | 514.31 | 0 | 0 | 0 | 551.63 |
| 2010/11(4) | 653.89 | 1 | 1 | 653.89 | 739 |
| 2011/12(5) | 1020.4 | 2 | 4 | 2040.8 | 926.37 |
| Total | 2758.19 | 0 | 10 | 1873.78 | |
| 2012/13(6) | | 3 | | | 1113.74 |
| 2013/14(7) | | 4 | | | 1301.11 |
| 2014/15(8) | | 5 | | | 1488.48 |
| 2015/16(9) | | 6 | | | 1675.85 |

Source: Annual Report and Internal Sources of EBL & HBL

The number of years is even i.e. N=5, therefore, the origin is taken at x=3

The equation of trend line is

$$Yc = a + bx$$

As, $\sum x = 0$

$$a = \frac{\sum Y}{N} \qquad = \qquad \frac{2758.19}{5} \qquad = 551.63$$

$$b = \frac{\sum xy}{\sum X^2} \qquad = \qquad \frac{1873.78}{10} \qquad = 187.37$$

Hence, the origin is 3 and the trend line is

$$Yc = 551.63 + 187.37X \qquad\qquad (1)$$

**Trend analysis of Auto Loan for EBL (in Million)**

| Year (x) | Auto Loan (y) | X=x-3 | $x^2$ | XY | Yc = trend value |
|---|---|---|---|---|---|
| 2007/08(1) | 398.28 | -2 | 4 | -796.56 | 225.09 |
| 2008/09(2) | 641.13 | -1 | 1 | -641.13 | 680 |
| 2009/10(3) | 985.18 | 0 | 0 | 0 | 1134.91 |
| 2010/11(4) | 1313.19 | 1 | 1 | 1313.19 | 1589.82 |
| 2011/12(5) | 2336.8 | 2 | 4 | 4673.6 | 2044.73 |
| Total | $\sum y =$ 5674.58 | $\sum x = 0$ | $\sum x^2$ 10 | $\sum xy =$ 4549.1 | |
| 2012/13(6) | | 3 | | | 2499.64 |
| 2013/14(7) | | 4 | | | 2954.55 |
| 2014/15(8) | | 5 | | | 3409.46 |
| 2015/16(9) | | 6 | | | 3864.37 |
| N =5 | | | | | |

Source: Annual Report and Internal Sources of EBL & HBL

The number of years is even i.e. N=4, therefore, the origin is taken at x=2.5

The equation of trend line is

$$Yc = a + bx$$

As, $\sum x = 0$

$$a = \frac{\sum Y}{N} = = \frac{5674.58}{5} = 1134.916$$

$$b = \frac{\sum xy}{\sum X^2} \quad = \quad \frac{4591.1}{10} \quad = 454.91$$

Hence, the origin is 3 and the trend line is

$$Yc = 1134.91 + 454.91X \qquad (1)$$

**Appendix-16**

**Trend analysis of Auto Loan for HBL (in Million)**

| Year (x) | Auto Loan (y) | X=x-3 | $X^2$ | XY | Yc = a+bx |
|---|---|---|---|---|---|
| 2007/08(1) | 287.23 | -2 | 4 | -574.46 | 238.724 |
| 2008/09(2) | 493.17 | -1 | 1 | -493.17 | 471.814 |
| 2009/10(3) | 653.6 | 0 | 0 | 0 | 704.904 |
| 2010/11(4) | 782.44 | 1 | 1 | 782.44 | 937.994 |
| 2011/12(5) | 1308.08 | 2 | 4 | 2616.16 | 1171.084 |
| Total | 3524.52 | 0 | 10 | 2330.97 | |
| 2012/13(6) | | 3 | | | 1404.174 |
| 2013/14(7) | | 4 | | | 1637.264 |
| 2014/15(8) | | 5 | | | 1870.354 |
| 2015/16(9) | | 6 | | | 2103.444 |

Source: Annual Report and Internal Sources of EBL & HBL

The number of years is even i.e. N=5, therefore, the origin is taken at x=3

The equation of trend line is

$$Yc = a + bx$$

As, $\sum x = 0$

$$a = = \frac{\sum Y}{N} = \frac{3524.52}{5} \qquad = 704.90$$

$$b = = \frac{\sum xy}{\sum x^2} \quad \frac{2330.97}{10} \qquad = 233.09$$

Hence the origin is 3 and the trend line is

$$Yc = 704.90 + 233.09X \qquad (1)$$

## Appendix-17

## Trend analysis of Personal Loan for EBL (in Million)

| Year (x) | Personal Loan (y) | X=x-3 | $x^2$ | XY | Yc = a+bx |
|---|---|---|---|---|---|
| 2007/08(1) | 620 | -2 | 4 | -1240 | 583.56 |
| 2008/09(2) | 992.56 | -1 | 1 | -992.56 | 962.11 |
| 2009/10(3) | 1265.48 | 0 | 0 | 0 | 1340.66 |
| 2010/11(4) | 1632.47 | 1 | 1 | 1632.47 | 1719.21 |
| 2011/12(5) | 2192.8 | 2 | 4 | 4385.6 | 2097.76 |
| Total | 6703.31 | 0 | 10 | 3785.51 | |
| 2012/13(6) | | 3 | | | 2476.31 |
| 2013/14(7) | | 4 | | | 2854.86 |
| 2014/15(8) | | 5 | | | 3233.41 |
| 2015/16(9) | | 6 | | | 3611.96 |

Source: Annual Report and Internal Sources of EBL & HBL

The number of years is even i.e. N=5, therefore, the origin is taken at x=3

The equation of trend line is

$$Yc = a + bx$$

As, $\sum x = 0$

$$a = \frac{\sum Y}{N} = \frac{6703.31}{5} = 1340.66$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{3785.51}{10} = 378.55$$

Hence the origin is 3 and the trend line is

$$Yc = 1340.66 + 378.55X$$

**Appendix-18**

**Trend analysis of Personal Loan for HBL (in Million)**

| Year (x) | Personal Loan (y) | X=x-3 | $X^2$ | XY | Yc = trend value |
|---|---|---|---|---|---|
| 2007/08(1) | 145 | -2 | 4 | -290 | 112.732 |
| 2008/09(2) | 215 | -1 | 1 | -215 | 254.02 |
| 2009/10(3) | 398 | 0 | 0 | 0 | 395.308 |
| 2010/11(4) | 519.2 | 1 | 1 | 519.2 | 536.596 |
| 2011/12(5) | 699.34 | 2 | 4 | 1398.68 | 677.884 |
| Total | 1976.54 | 0 | 10 | 1412.88 | |
| 2012/13(6) | | 3 | 9 | | 819.172 |
| 2013/14(7) | | 4 | 16 | | 960.46 |
| 2014/15(8) | | 5 | 25 | | 1101.748 |
| 2015/16(9) | | 6 | 36 | | 1243.036 |

Source: Annual Report and Internal Sources of EBL & HBL

The number of years is even i.e. N=5, therefore, the origin is taken at x=3

The equation of trend line is

$$Yc = a + bx$$

As, $\sum x = 0$

$$a = \frac{\sum Y}{N} = \frac{1997.54}{5} = 395.308$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{1412.88}{10} = 141.28$$

Hence the origin is 3 and the trend line is

$$Yc = 395.30 + 141.28X \qquad (1)$$

# Appendix–19

## Questionnaire

Dear Sir/ madams

I could be very much thankful for few minutes time to fill up the following questionnaire that have importance in finding trends of retail banking in Nepal. Your individual responses will be kept anonymous and only the general findings will be presented in the research report.

| Name: |  |
| --- | --- |
| Occupation: |  |
| Age: | Gender: |

1.  What is your view about present pace of retail banking trend in Nepal?

    ☐  Increasing

    ☐  Decreasing

    ☐  Don't Know

2.  Is retail banking a good deal for both customer and banks?

    ☐  Yes

    ☐  No

    ☐  Don't Know

3.  Do you ever buy retail banking product offered by banks?

    ☐  Yes

    ☐  No

    ☐  Don't Know

4.  If you have an option to purchase the retail banking product which of the following option do you give more priority? (Mark 1, 2,3  in order of priority)

    1.  More Priority
    2.  Indifference
    3.  Less priority

| Option | Rank | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| Home Loan | | | |
| Auto Loan | | | |
| Personal Loan | | | |

5. What factor will motivate to get loan in the market?

1. Very relevant                              2. Relevant

3. Indifference                               4. Irrelevant

5. Very Irrelevant

| Factor | Rank | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Low interest rate | | | | | |
| Promotion and advertisement campaign | | | | | |
| Innovation product offered by bank | | | | | |
| To maintain social status | | | | | |
| For better lifestyle | | | | | |
| To make future secure | | | | | |

6. Do you agree that the retail banking helps to increase overall performance of the commercial banks?

☐ Yes

☐ No

☐ Don't Know

7. If yes, please rank the following factor.

1. Strongly agree                                        2.  Agree

3. Don't Know                                            4. Disagree

5. Strongly disagree

| Factor | Rank | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Reduce NPA | | | | | |
| Increase Bank's profit | | | | | |
| Increase quality service and quick delivery | | | | | |
| Helps to reduce cost | | | | | |
| Helps to technology innovation | | | | | |

8. Please rank the following statement that the Nepalese commercial banks face difficulties for the growth of retail banking, in your opinion.

1. Strongly agree                                        2.  Agree

3. Don't Know                                            4. Disagree

5. Strongly disagree

| Factor | Rank | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| The legal process is tedious and lengthy | | | | | |
| The bank has not sufficient customer segment to match the requirements of customer | | | | | |
| The staff are not highly competent | | | | | |
| The bank faces difficulties from the competitive market | | | | | |
| The present rules and regulation is not sufficient for retail banking growth | | | | | |

Thank you for your kind cooperation