

# CHAPTER – I

## INTRODUCTION

### **1.1 Background of the Study**

The economy of the kingdom of Nepal was of closed and isolated type before 2007 BS. After the establishment of democracy in 2007 BS, Nepal applied mixed economic policy, which continued even after the political change in 2017 BS. After the establishment of multiparty political system in 2046 BS, Nepal pursued liberal, open and market oriented economy. Foreign direct investment is promoted in almost all sector/sub-sector of the economy, including the development, operation and management of infrastructure like road, transport and electricity, especially hydroelectricity, of which the country has immense 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**

- i. A poor and agro based economy;
- ii. Landlocked, mountainous and developing nation;
- iii. Mixed economy policy;
- iv. High rate of population growth;
- v. Low rate of capital investment;
- vi. Rich in water and natural resources;
- vii. 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 26 commercial banks operating in Nepal financial markets along with 9 joint venture with foreign investor.

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 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 is a lot of product, which is beyond of the study. So I have categorized the mostly used products in the Nepal.

### **A. Home Loans**

A host of factors, such as number of dual income families, high salaries employees with high purchasing and borrowing powers, phenomenal growth of the information technology sector, attractive tax sops for housing loan, desire to say new house etc., have contributed to the optimism in the housing sector. Investing in housing has always been on top priority for most of the developing nations' families. Thus, the banks are going in for housing finance with more vigor. Since these loans are very secure, with low incidence of default, demand for housing loans has been growing by leaps and bounds and they form a growing avenue for deployment of funds by banks.

Home loan of course, has been the fastest growing loan segment for Banks in Nepal in the past few years. It is estimated to be growing at around 50% per annum. The housing finance players are dropping interest rate/ fees and undercutting each other, due to the reason that they find ways to deploy the low cost fund mobilized, in their pursuit of aggressive growth.

### **B. Auto Loan**

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

### **C. Personal Loans**

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

### **D. Credit Card**

Credit Card that identifies its owner as one who is entitled to credit when purchasing goods or services from certain establishment. Credit cards originated in the United

States in the 1930s; their use was widespread by the 1950s. Consumer behavior has been radically altered by the power of plastic money. A credit card has endowed the middle class with the power to acquire their dream objectives, which are often beyond their normal means. The emergence of plastic money or credit cards in Nepal has ushered in an era of convenience and security, apart from opening up new vistas of effective demand. A credit cardholders gets, many benefits like free credit period, discounts on travel expenses, quick loan processing and free gifts, Besides, members can get free health insurance and check ups. The comfort that these credit cards provide in terms of payment for shopping bills, electricity bills, phone bills, travel tickets and even petrol bills is enormous. It offers the convenience of immediate payment even with no cash in hand; further growth in transaction depends on the creation of more transactions at the point of sale (Pos) centers.

#### **i) Debit Card**

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

#### **E. Educational Loan**

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

## **F. Innovative Banking**

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

### **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:

- a. What is the position of Retail Banking of sample commercial bank?
- b. What is the future prospectus of retail banking in Nepal?
- c. What problems are facing by commercial bank to providing retail banking service?
- d. Why the consumer not getting benefit of the retail banking that provided by bank?
- e. What type of major retail banking products are prescribed by consumer?

#### **1.4 Objectives of the Study**

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

1. To study the existing situation of retail banking in Nepal.
2. To analyze the retail banking trend in Nepal.
3. To analyze the SWOT of sampling bank
4. To provide suggest and recommend for all concern parties.

#### **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:

- a. By the helps of this study, general public can know the retail banking activities of the Nepalese commercial banks.

- b. It is also beneficial for the government while formulating policy and rules regarding the credit policy.
- c. 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.
- d. This study provides valuable information that is necessary for the management of the banks, shareholders, general public and related parties.

## **1.6 Limitation of the Study**

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

1. This study is based on secondary as well as primary data. Accuracy depends upon the data collection and provided by the banks.
2. This study has been carried out for the partial fulfillment of master's degree faculty of management of TU. So the time and resources are major limitation of the study.
3. Only 3 commercial banks among 26 have been selected as sample for the study.
4. 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**

#### **2.1 Introduction**

The Purpose of reviewing the literature is to develop some expertise in one's area loose what new contribution can be made, and to receive some ideas for developing a research design. Their relevant finding issues, arguments legit and suggestion while will given a glimpses, guide line to go further depth of the study. In other words there has to be continuity in research. Linking the present study with the post research studies ensures this continuity in research.

From above it is clear that the purpose of literature review is to be final out. What research has been conducted is one's chosen field of study and what remarks to be done;

Thus the chapter is broadly discussed under three sections.

- Conceptual Framework
- Review of Journals and Articles.
- Review of Previous Research

#### **2.2 Conceptual Framework**

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

##### **2.2.1 Bank Lending Policies**

The principal reason banks are chartered by state and federal authorities is to make loans to their customers. Banks are expected to support their local communities with an adequate supply of credit for all the Intimate business and consumer 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 fund 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 its region, because bank loans “support the growth of new businesses and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the marketplace about a borrower's credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources (*Rose, 1983:52*).

### **2.2.1.1 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 constructing home and office buildings.

- a. **Real Estate Loans:** which are secured by real property—land, Buildings, and other structures—and which include short-term loans for construction and land development and longer-term loans to finance the purchase of farmland, homes payments, commercial structures and foreign properties.
- b. **Financial Institution Loans:** including credit to banks, insurance companies, Finance companies and other financial institutions.
- c. **Agricultural Loans:** extended to farm and ranch operations to assist in planting and harvesting crops and to supping the feeding and care of livestock.
- d. **Commercial and Industrial Loans:** granted to businesses to cover such expenses as purchasing inventories, paying taxes, and meeting payrolls (*Rose, 1983:54*).

### **2.2.1.2 Introduction of Retail Banking**

Slow credits demand from corporate, low interests rates and prudential norms are forcing the banks to move towards new avenues. Also, the scope for substantial Deployment of funds, which offer better risk- return trade-off and a well diversified credit portfolio, are the imperatives that literally led the bank to go retail.

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

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

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current, savings accounts on the liabilities side; and mortgages, loans (e.g., home, travel, personal, home, auto, and educational) on the assets side, are the more important of the products offered by banks, related ancillary services include credit cards, or depository services.

Retail banking refers to the mobilization of deposits mainly from individuals and lending to small business and in retail loan markets. It consists of large volume of low value transactions. Its liabilities are mostly related to various types of deposits account and the loan Portfolio is dominated by the customer loans. Retail banking deals with large number of customers with low value of transaction. As the processing cost is high in retail banking, higher interest spread is maintained in transaction.

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 customer contact. Retail services are uniquely positioned to help banks develop strong long-term relationship with targeted customers and thus differentiate themselves from competitors. Banks look up to retail lending as a possible avenue to augment business in the current context.

Consumer financing encompasses extension of loans for consumer durable goods, education loans, finance for travel, medical expenses etc. Demand for loans for acquisition of TV, fridge, washing machine, air-conditioners, etc., is on the rise. Banks also offer loans through tie-ups with manufacturer or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income levels of the people, and availability of finance for even second-hand cars.

In retail banking even product to be offered to the customer needs to be well defined, easily serviceable and potentially profitable.

## **2.2.2 Resurgence of Retail Banking**

### **2.2.2.1 A Paradigm Shift from Corporate Banking**

The economic slowdown and poor industrial growth have reduced demand for loans and there is stiff competition in the corporate loans market due to continuous fall in interest rates. The corporate lending scene has also undergone radical change in the recent years. There are few opportunities in the wholesale segment, which is the corporate lending market. Competition has made it unviable to lend to above the yield on government securities. Volatility has been very wide with corporate preferring to tap global markets for funds. This has left only second rung corporate available for lending by domestic banks. While it increases the threat of NPAs, the fact also remains that there are too many bank chasing too few corporate with good rating status. And retail finance market is more profitable than corporate banking business since, retail customers are less credit averse and more open to acquire assets through the credit route (*Sigdel, 2005*).

### **2.2.2.2 Differential Interest Rate**

Price is an important aspect. As the market is getting commodities, interest rate differential assumes a greater significance. For example, even the lowest interest bearing product-say housing finance- earns an interest of 10 to 12 percent for more than 5 years tenure, compared to corporate lending at eight to nine percent interest rate to meet more risky corporate loan demand. More importantly, the corporate meet more risky corporate loan demand (*Sigdel, 2005*).

### **2.2.2.3 Increase Middle Class Demand**

Despite the slowdown in the economy, the purchasing power continued to be strong due to consumerism among the middle class in on the increase. As increasing number of products and service on credit, and the rapidly growing middle class with a bias towards consumerism are the key drivers for the growth in the retail banking. Increased 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 consumers are sensitive to the impact of any purchase on the household budget and will postpone till they get saved the actual money required. To counter this bank should shift their loan portfolio to Retail segment to grab these consumer.

#### **2.2.2.4 Liquidity Position of the Bank**

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

#### **2.2.2.5 Availability of Better Spread to Banks**

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

##### **2.2.2.5.1 Risk Diversification**

There is one proverb that 'Don't lay egg 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 Asset (NPA), bank has 10 bear 100 much risk and sacrifices profitability as well as turn into loss position. Banking world has seen these conditions very often in the past. To prevent land minimize the above-mentioned condition, Bank turns in the Retail banking. Because of widespread risk among large number of borrowers, Bank is entertain low NPA and high profitability.

##### **2.2.2.5.2 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 able to retain them exception from this. Due to technological development, banks 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.

### **2.2.3 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. Banks were getting a lot of business because of expansion in the economy. Consumer finance was Banks are now trying to reduce their risks by diversifying their portfolio and having a thrust on short-term retail earnings rather than blocking funds in riskier medium and long-term loans. Some banks developed consumer finance and housing finance product to not a favored subject for them. They were keen to finance industrial and trading activities. However, with slowdown in the economic activities in the recent past, banks became selective in their lending operations as lending to industrial and trading activities as working capital and term loan requirements. Because of uncertainty in the economic environment, attract rich middle class people and the people having fixed source of income and increase lending business. In the present competitive banking environment, differentiated products are an effective method of gaining competitive advantage.

Customer service is one of the most important dimensions of retail banking. Public sector banks compare very poorly with the private sector banks when it comes to the efficiency in services. In order to improve the speed of service the bank should improve the rapport between the controlling 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 to retail lending as a possible avenue to augment business in the current context. Consumer financing appears to be a viable alternative to cope with poor credit off takes.

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

In retail banking, one of the major problems faced by the banks is the queue problem. The size of queuing will differ from hour to hour and day to day. To overcome this obstacle, banks must ensure that adequate staff is available to man all the branches (*Sigdel, 2005*).

#### **2.2.4 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 polices are explained as below;

##### **2.2.4.1 Safety and Security**

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those of companies 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 while 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 customers deposit their savings 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.

#### **2.2.4.2 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.

#### **2.2.4.3 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 collect detailed information about the plan anti scheme of the borrowing.

#### **2.2.4.4 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 fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be last.

#### **2.2.4.5 Tangibility**

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly does not yield on income a part from intangible securities, which have last their value due to price level inflation.

#### **2.2.4.6 Diversification**

A firm can invest its deposit collection in various securities in various securities to minimize the risk. So, all the firms 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.

### **2.2.5 Consumer Lending and Borrowing**

Among the most important of all financial markets are the markets providing savings 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 or loan able funds flowing into financial markets today but system. Moreover, the market for consumer financial services in the one market that everyone, regardless of profession or social status, will enter at one time or another. During his or her lifetime (*Rose; 1997:553*).

#### **2.2.5.1 Consumers as Lenders of Funds**

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

The most important household financial asset 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 holdings of corporate stock (equities) led by a dramatic rise in holdings 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 concerned that, when they reach retirement, social security and other government pension programs will be inadequate to cover spiraling medical expenses and other living costs in their later years.

In third place among household holdings of financial assets are deposits in banks, saving and loan associations, credit unions, and other thrift institutions. The importance of deposits in consumer financial investment is increasing these days. There has also been a significant rise in household investments in small businesses,

which are often owned name operated by an individual or by a member of same family.

### **2.2.5.2 Categories of Consumer Borrowing**

The range of consumer borrowing needs is enormous loan to the household sector support a more diverse group of purchase of goods and services than is true of any other of the economy. Consumer borrow long term loan to finance purchases 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 as medical care, vaccines, food and clothing. Financial analysts frequently divide the credit extended to consumers into three broad categories.

- Residential Mortgage Credit, used to support the purchase of new or existing homes.
- Installment Credit, used primarily for long term non residential purpose; and
- Non-installment Credit, used for shorter-term cash needs.

For and away the dominant from of 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 recent tax reforms that favor loans scared 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 our major types of installment credit: automobile credit, revolving credit, mobile homes and other consumer installment loans. This kind of credit, including the purchase of furniture and appliances, the payment of medical expenses, the purchase of automobiles, and the consolidation of outstanding debt, finances an incredibly wide variety of consumer goods and service.

The final major category of consumer debt is non-installment credit, which is normally paid off in a lump sum. This form of consume credit includes single payment loans, charge accounts, and credit services, such as medical care and

utilities. The total amount of non-installment loans outstanding is difficult to estimate because many such loans are made by one individual to another or by department stores, oil and gas companies and commercial banks, however, make a substantial volume of non-installment loans to consumers and are considered the lending lender in this field.

### **2.2.5.3 Home Equity Loans**

One new form of consumer borrowing that is closely related to residential mortgage credit is home equity loan. Like traditional home mortgages, a home equity loan is secured by a borrower's home. However, unlike traditional home mortgages many home equity loans consist of a prearranged revolving credit line the borrower can draw on for purchases of any goods or services he or she wishes in varying amounts over the life of the credit line. Thus, the consumer can literally write himself a lone simply by writing a check or presenting a credit card for purchases made up to a stipulated maximum amount, known as the borrowing base. The borrowing base usually equals the difference between the appraised market value of the borrower's home and the unpaid amount of the mortgage against that home multiplied by a fraction.

Most home equity loan rates are linked to the bank prime interest rate plus and extra margin for 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 payoff other debts, make home improvements, buy automobiles, or finance an education.

Home equity credit has proved to be especially attractive to consumer lending institutions 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 a series of short-term loans made to the same customer. In addition, these loans usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build a working relationship with a 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's his or her home may be repossessed und sold to pay back the lender. Many financial experts recommended that consumers use home equity credit with caution, particularly when their future employment prospects are uncertain (*Rose; 1997:560*).

#### **2.2.5.4 Credit and Debit Cards**

One of the most popular forms of installment credit available to consumers today comes through the credit card. Through this encoded 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- the Debit Card – has made instant cash available and checked cashing much easier. The growth of credit and debit cards has been truly phenomena. Current estimates suggest that there are more than on trillion credit and debit cards in use worldwide and leading 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 lines and preauthorized 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 bank or other financial institution because transaction will be handled mainly over the telephone, though a conveniently located computer terminal, or through "smart cards" that have prepayment –encoded information. The hometown financial institution will lose 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. I short, the ticket too many consumer financial services increasingly will be a plastic credit or debit card, will the capability to process financial data across great distances (*Rose; 1997:561*).

## **2.2.6 Consumer Lending Institution**

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

### **2.2.6.1 Commercial Banks**

Commercial banks are the most important consumer lending institution. Commercial banks approach the consumer in three different ways by direct lending, through purchases of installment Paper from merchants, and by making loans to other consumer lending institutions. Roughly half of all bank loans to consumers consist 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 leading institution. They grant almost half of all auto loans extended by financial institutions to consumers each year. However, most bank credit in the auto field is indirect-installment paper purchased from auto dealers-rather than being made directly to the auto buying consumer. Moreover, bank's leadership in auto lending has been challenged in recent years by finance companies and credit unions. Indeed, in many forms of consumer installment credit today, the lead of commercial banks is threatened by challenged from aggressive non-bank lenders who see the consumer market as a key growth area for the future.

### **2.2.6.2 Finance Companies**

Finance companies have a long history of lending in the consumer installment field providing funds directly to the consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These

active household lenders provide auto loan and credit for home improvements and for the purchase of appliances and furniture. Finance companies often face state-imposed legal limits of the interest rates they can charge for household loans and on maximum loan size.

### **2.2.6.3 Other Consumer Lending Institutions**

Other Consumer Lending Institutions includes credit unions, saving and loan associations and saving banks. Credit unions make a wide variety of loans for such diverse purposes 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*).

## **2.3 Review of Article**

In this section, effort has been made to examine and review of some related article on different journals, magazines, newspapers and other related books.

**Dr. Sunity Sharestha** (1998) in her article "*Lending Operation of Commercial Bank 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. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP, IN research methodology, she has considered GDP as the dependent variable and various sector of lending are agriculture, industrial, commercial, service and general social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution.

The multiple analyze has shown that the entire variable except service sector lending has positive impact on GDP. Thus, in conclusion she had accepted the hypothesis i.e.

there has been positive impact on GDP and also she has accepted the hypothesis i.e. there has been positive impact by the lending of Commercial banks in various investment.

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

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

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

While information technology has contributed to major upheaval in wholesale banking, its impact on retail banking has been relatively limited. Corporate clients are more familiar with automated environments, which will facilitate more automation and creation of paperless office. Technology-based delivery channels such as



automated teller machines (ATMs) did not fundamentally change Competitive position among banks, based on the density of traditional branch networks. So far, Internet banking has not modified this relationship. While the number of banks with Internet Sites and offering Internet-based services is growing rapidly, it represents a limited portion of banking transactions.

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

While a few banks specialize in wholesale banking or in retail banking, there is no longer a complete separate wholesale or a retail bank in Nepal. Most of the banks combine retail and wholesale banking operations. Some of the banks have separate division or unit dealing corporate customers. The skill and knowledge required carrying out the wholesale and retail banking businesses are different. However, there are some common critical success factors such as customer orientation, investment in technology etc. In the competitive environment the banks needs 'to reorient and equip themselves with modern techniques of banking to face the increasing competition  
(Sources: [www.nepalnews.com](http://www.nepalnews.com))

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

Customer service is one of the most important dimensions of retail banking. Public sector banks compare very poorly with the private sector banks when it comes to the efficiency in services. In order to improve the speed of service the bank should

improve the rapport between the controlling offices and the branches to ensure that decisions are communication fast; and make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

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

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

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

## **2.4 Review of Previous Research**

There are very few thesis and research work of the same kind of and in same field in Nepal, to knowledge of the researcher, various master level thesis conducted in

different aspect of commercial banks, such as lending policy, liquidity position, interest rate structure, capital structure investment policy etc. These theses are more or less related to the field of this study. The review and extract form them are presented below.

**B. Aryal** (2006) in his thesis entitled, “*A Analysis of Retail Leading in Market With Special Reference to Everest Bank Limited*” concludes that the to get success in competitive banking environment depositors money must be utilized as loan and advance. The largest items of the bank in the assets sides in loan and advances. If it is neglected, it could be the main causes of liquidity Crisis in the banks and one of the main reasons for a banks failure. He recommended that bank should follow liberal lending policy and invests more and more percentage of total deposit in loan and advances and similarly, maintains more stability in the investment policy.

**Utam Raj Pant** (2006) in his thesis entitled, “*A Study of Commercial Bank Deposit and its Utilization.*” has made an attempt to highlight the discrepancy between resource collection and resource utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposit.

**Om Bakhati** (2006) in his thesis entitled, “*A Comparative Study on Housing Finance of Everest Bank, Nepal Bangladesh Bank limited and Kumari Bank limited*” Concludes that the proportion of housing loan in total loan and advance for all the banks under study is in increasing trend. Among the sample banks, EBL has disbursed higher amount for housing loan. EBL is the pioneer bank in Nepal which initiates the housing loan scheme in Nepal. He suggests that the growth of housing loan is depends upon interest rate, so the sample banks are requested to lower down the invest rate and make the procedure of getting loan easy.

**Ram Krishna Khatiwada** (2004) in his thesis entitled, “*Retail Banking an Emerging Trend in India*” has made an effort to analyzing the trend of retail banking product offered by Indian commercial banks and evaluating the contribution in Indian economy. He concluded that there is highly positive correlation co-efficient and co-

efficient of determination of above 90% between pre capita GDP and retail banking indicated the direct relationship between them. When one Rs. per capita GDP increase, the retail banking player can enhance its retail banking segment and housing finance segment by Rs.3.26 core and Rs.1.36 core respectively. He finds that the retail banking segment has much low level of NPA then banking industry's NPA. Housing finance segment of the retail banking is the most leading segment. This segment contributes to retail banking by more than 40%. He suggests that there is tremendous upwards potential in this segment. The future of retail banking is dependent on technology facilities reduction in transaction cost and provides the ability to do business involutes. New kinds of management skill are required to mange the retail – landing portfolio.

**Jit Bahadur Joshi** (1982) in his thesis entitled, "*Lending Policy of Commercial Banks in Nepal.*" Concludes that commercial banks have collected such resources from people but they are for behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

**N.M Pradhan** (1980) in his thesis entitled, "*A Study on Investment Policy of Nepal Bank Ltd*" has emphasized that there is a greater relationship between deposits and lines and advances. He can include that though lean and advance as well as deposits is increasing trend, their increase is not in proportionate manner. Immense increase in deposit had led to little increase in loan and advances due to the increase in the interest rates. His recommendation was to great loan and advances without its lengthy process. He has suggested enhancing banking transactions up to rural sector of the kingdom.

**Ramala Bhattarai** (1978) in her thesis entitled "*Lending Policy Commercial Banks in Nepal*" of has made on effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hapless economic development of the people and the country. So, she recommended that bank should give emphasis on efficient utilization of resources.

## **Research Gap**

Today, retail banking is the one of the important means of fund 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 banks 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. So the researcher could not find any systematic study carried out on this topic in Nepalese context. This is the research gap of the study.

## **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 a plan to obtain the answer of the research question through presentation and analysis of data. The description cum analytical research design is used for this research.

#### **3.2 Population and Samples**

"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 and research. It allows the researcher to make an intensive study of the research problem which is the limited frame. 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 26 commercial bank 3 customer friendly retail banking player banks is selected. They are as follows.

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

### **3.3 Source of Data**

This research study is mainly based on the secondary data that are available in the published form and 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, broacher 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 through out the study. Primary data has been obtained through questionnaire, direct interviews, field visits and telephone inquires. For secondary data annual reports, brochures etc has been collected from different department of concerned banks and as well as websites were also used for down loading 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 process to the requested form where necessary and where it is not necessary the original form of the data has been used through out the study and these data are presented in table, diagram and chart with supporting interpretation, models to find out the preset objective 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 concert result from this research data are analyzed by using different types of description 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 present as under.

### 3.6.1 Secondary Data Analysis Tools

#### 3.6.1.1 Statistical Tools

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

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

Correlation analysis is the statistical tools 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 either 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 positive perfect collocation between told variables.

If  $r = -1$  there is negatively perfect correlation between the two variable.

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 collocation.

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

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

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

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

The sequence of simple correlation coefficient is called coefficient of determination. IT explains to what extent the variation of a dependent variable is expressed by the independent variable. A high value of coefficient of determination shows a good



listed relationship between the two variables of the value of coefficients of correlation,  $r = 0.90$ , then the coefficient of determination,  $r^2 = 0.81$ , which means that 81% of the total variation in the value of the dependent variable has been explained by the change in the value of independent variable. It is must easier to understand the meaning if  $r^2$  than  $r$  and therefore, coefficient of determination is preferred while presenting the result of correlation analyses.

### **Problem 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  $r > P.E$ , it is not significant. So perhaps there is no evidence of correlation.

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

### **Trend Analysis**

Forecasting is an essential tool in any decision- making. Analysis is carried out to ascertain rate in the past. 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

$$y_c = a + bx$$

$$\text{Where, } a = \frac{\sum y}{n} \quad b = \frac{\sum xy}{\sum x^2}$$

$y$ = dependent variable

$x$ = deviation from some convenient time period

$b$ = slope of trend line or annual rate of growth

$a$ =  $y$ - intercept.

## **Variables**

Variable are characteristics of person, things, groups, 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 Variable**

A variable is called dependent variable if its values depend upon the other variables. The researchers purpose is to study, analyze and product the variability in the dependent variable.

## **Independent Variables**

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

### **3.6.2 Primary Data Analysis Tools**

Data generate through questionnaire and personal interview of commercial banks manages, officers, academicians and customers are analyzed using mean ranking descriptive method and are presented in table wherever necessary.

The study is confined in limited banks considering the time constraint. The findings should not be generalized. The study is only focused on banks, which have most customer friendly retail-banking player in Nepal. Since data of the study is of non-experimental type; chance of observation errors may take place. Similarly, primary data are based on survey of personal interview and questionnaire; there can be selective bias because of non- response error. So this study is just to fulfill the partial requirement of the MBS of Tribhuvan University.

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

Presentation and analysis of data is an important stage of the research study. The main purpose of analyzing the data is to change it from an unprocessed form in an understandable presentation. The analysis of data consists of organizing data by tabulating and then placing the data in presentable form by using figures and tables.

In this chapter, the available data are presented to an evaluation for 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.

#### **4.2 Position of Home loan**

Home loan automatically becomes the area of focus when retail banking becomes a priority; home is one of the most important needs of any human being. Stressing on the crucial role and opportunities in housing loans, most of the banks 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**

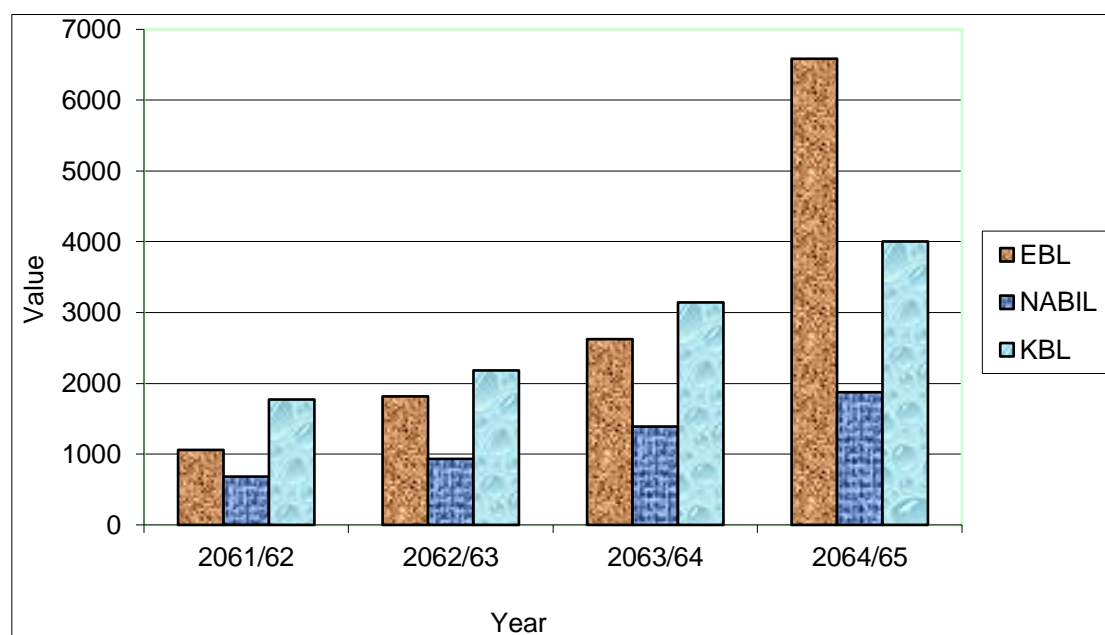
<b>Year Bank</b>	<b>2061/62</b>	<b>062/63</b>	<b>063/064</b>	<b>064/065</b>	<b>Average Growth rate for home loan</b>	
EBL	Loan amount (Rs. In million)	1059.29	1815.48	2624.11	6585.01	89%
	Contribution in loan and advance	13.90%	18.53%	19.20%	35	
Nabil	Loan amount (Rs. In million)	682.41	932.56	1389.28	1874.04	40%
	Contribution in Loan & advance	4.65%	5.20%	7.10%	8.70%	
KBL	Loan amount (Rs. In million)	1771.38	2182.27	3143.10	4004.19	31.33%
	Contribution in loan and advance	21.43%	22.10%	29.51%	35%	

*(Source: Annual Report and Internal Sources, Appendix: I, II & III)*

Table 4.1 depicts that the Everest Bank lead the Housing Finance by providing loan amounting Rs.6585.01 Million in 064/65, where as KBL followed the EBL path by disbursing loan amounting Rs. 4004.19 million and Nabil bank amounted Rs. 1874.04 million.

Housing finance is the mostly contributed segment is the retail banking it can be proved by the data regarding percent of housing loan disbursement to loan and advance of EBL's 35 percent, Nabil Bank's 8.70 percent and KBL's 35percent in 2064/65.

**Figure 4.1**  
**Home Loan Disbursement by Bank**



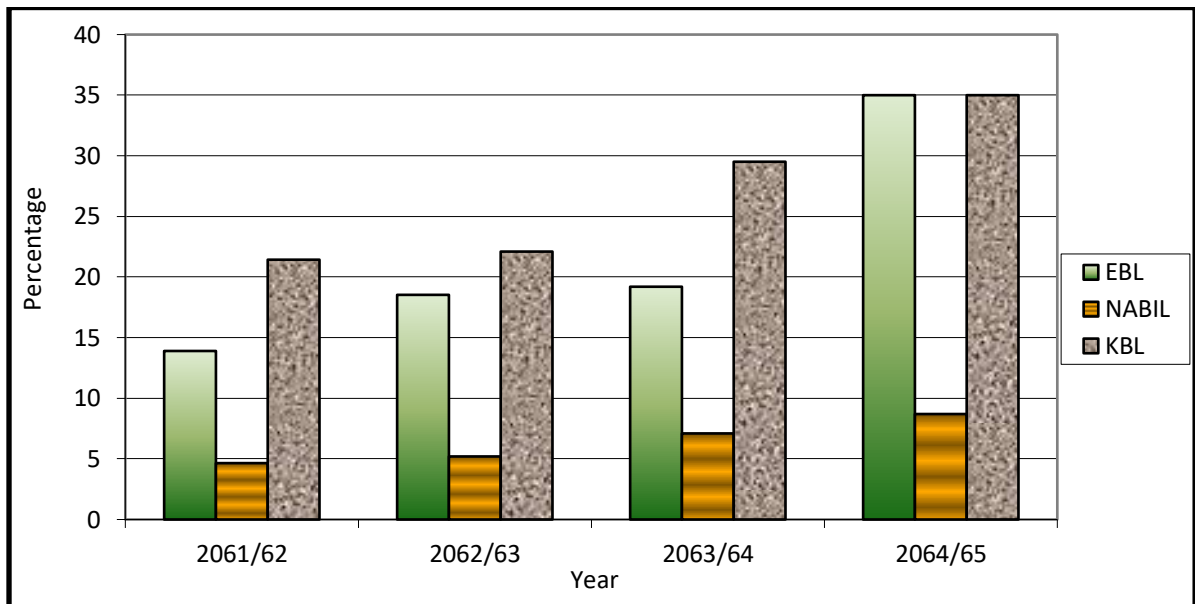
*(Source: Table 4.1)*

In fiscal Year 061/62, KBL led the Housing finance by disbursing housing loan Rs. 1771.38 million when is 21.43 percent of total loan and advance.

The above table depicts that EBL maintained its leadership in housing finance in 062/63 and 063/64 also it has disbursed Rs. 1815.48 million and 2624.11million. In this two year housing finance has made significant contribution in total loan and advance of 18.53 percent and 19.20 percent respectively. In fiscal year 2064/65 Everest Bank (EBL) led the housing finance by disbursing housing loan Rs 6585.01 million when is 35% of total loan and advance.

**Figure 4.2**

**Home loan-Contribution in Loan and Advance**

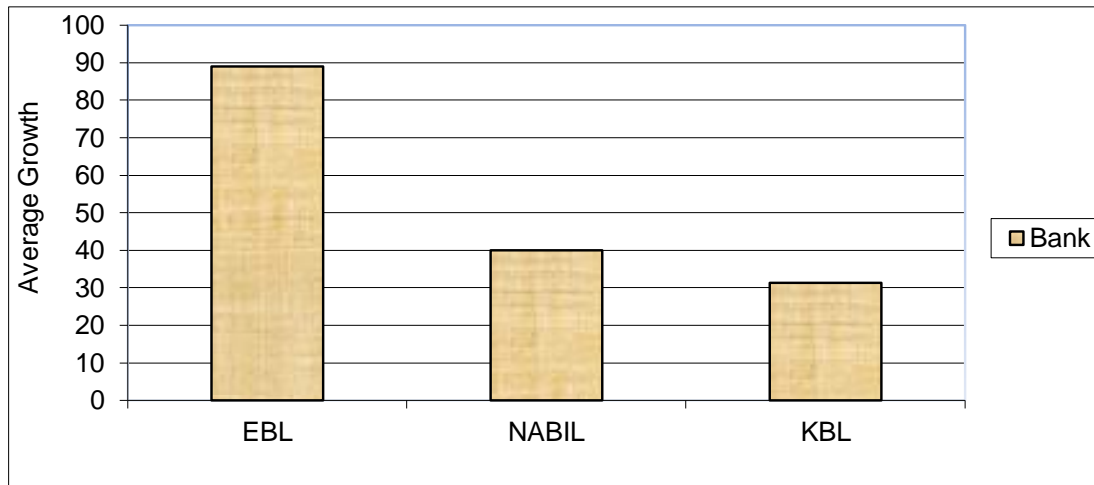


*(Source: Table 4.1)*

EBL and KBL were able to grab the Nepalese consumer for housing segment by providing housing loan Rs. 2624.11 million and 3143.10 million in 063/64. EBL & KBL disbursed the housing loan amounting to Rs. 6585.01 million and Rs. 4004.19 million by contributing 35 percent in loan and advance in the fiscal year 064/65 respectively. On the side of Nabil, the data reveals that it has granted housing loans of Rs. 1874.04 million and becomes the follower of EBL and KBL. In Loan and Advance, it holds 8.70 percent in the same year.

**Figure 4.3**

**Average Growth Rate in Home Loan**



*(Source: Table 4.1)*

In the home loan segment, Everest Bank (EBL) has shown best performance having higher average growth rate of Rs. 89 percent and followed by Nabil and KBL.

### **4.3 Position of Auto Loan**

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

**Table 4.2**

**Auto Loan: Position Contribution and Average Growth**

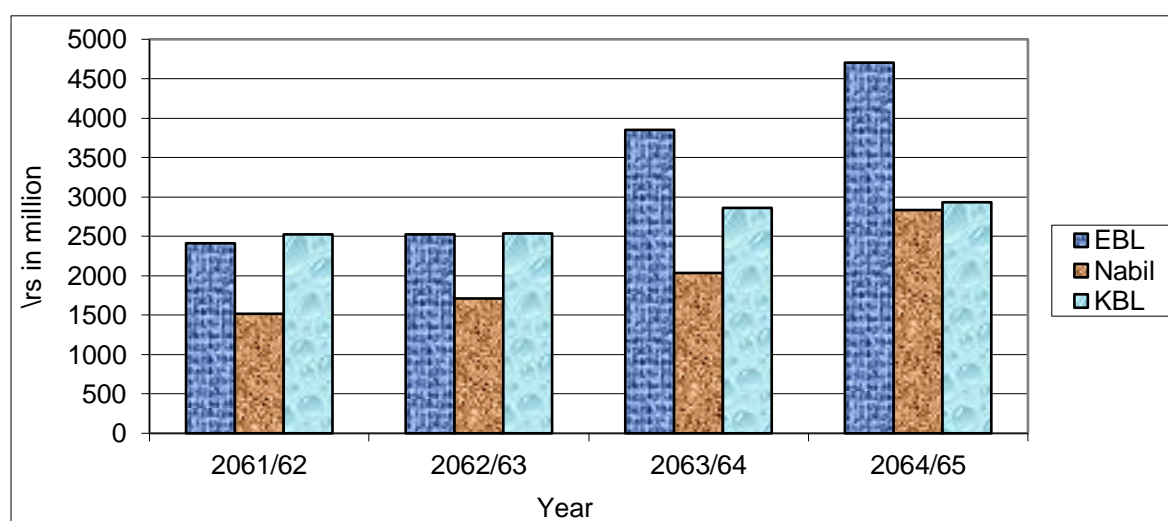
Year		2061/62	062/63	063/064	064/065	Average Growth rate for home loan
Bank						
<b>EBL</b>	Loan amount (Rs. In million)	2411.31	2524.10	3850.18	4703.57	26.67%
	Contribution in loan and advance	31.65%	25.75%	28.17%	25%	
<b>Nabil</b>	Loan amount (Rs. In million)	1516.52	1710.93	2034.55	2833.16	23.67%
	Contribution in Loan & advance	10.39%	9.55%	10.41%	13.15%	
<b>KBL</b>	Loan amount (Rs. In million)	2524.21	2536.10	2860.13	2931.72	5.50%
	Contribution in loan and advance	30.54%	25.67%	26.85%	25.62%	

*(Sources: Annual Report and Internal Sources, Appendix; IV, V, VI)*

Table 4.2 depicts that in fiscal year 064/65 Everest Bank has disbursed the Auto loan of Rs. 4703.57million by contributing 25 percent to total loan and advance. Where as KBL's loan Auto was Rs. 2931.72 million having contribution of 25.62 percent percent to loan and advance. Nabil bank followed these two banks by providing Auto Loan to Nepalese consumer of Rs. 2833.16 million being contributed by 13.15 percent.

**Figure 4.4**

**Auto Loan Disbursement by Banks**



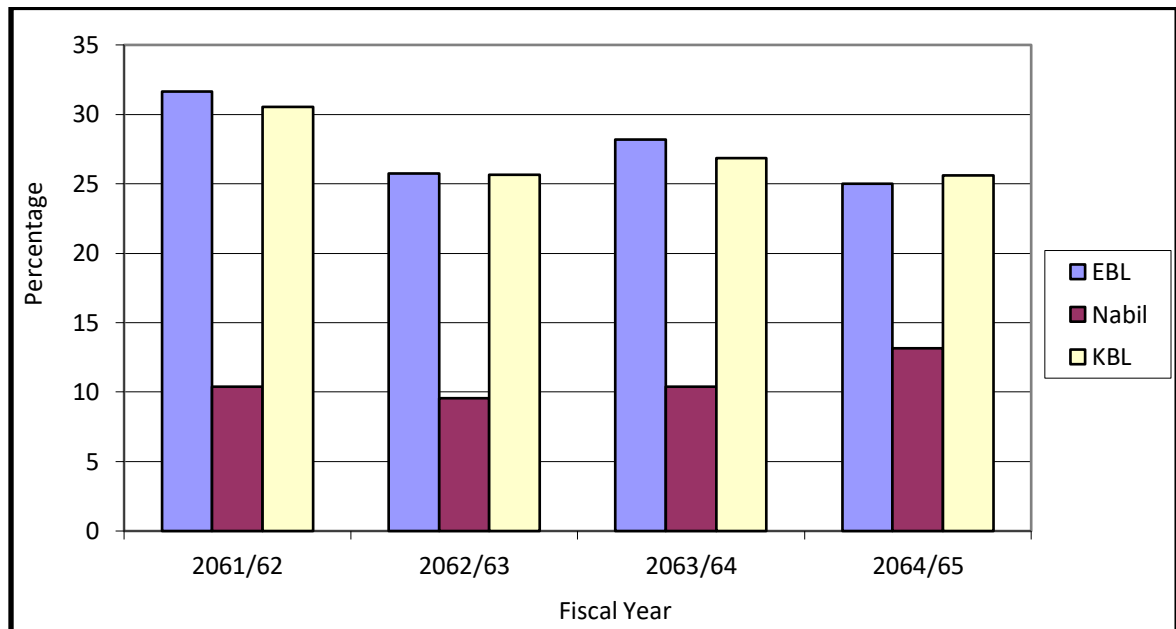
*(Source: Table 4.2)*



In fiscal year 061/62, KBL also led the Auto Loan segment by disbursing Auto loan of Rs. 2524.21 million which is 30.54 percent of total loan and advance.

The above table also proved that the Everest bank has gained the robust growth in Auto loan segment in 062/63 to 2064/65 by disbursing is 2524.10, 3850.18 and 4703.57 million respectively. In year 064/65, it was able to grab the Auto loan segment of the retail banking by providing loan to Nepalese consumer of Rs. 4703.57 million. It has contributed 28.17 and 25 percent is 063/64 and 064/065 respectively.

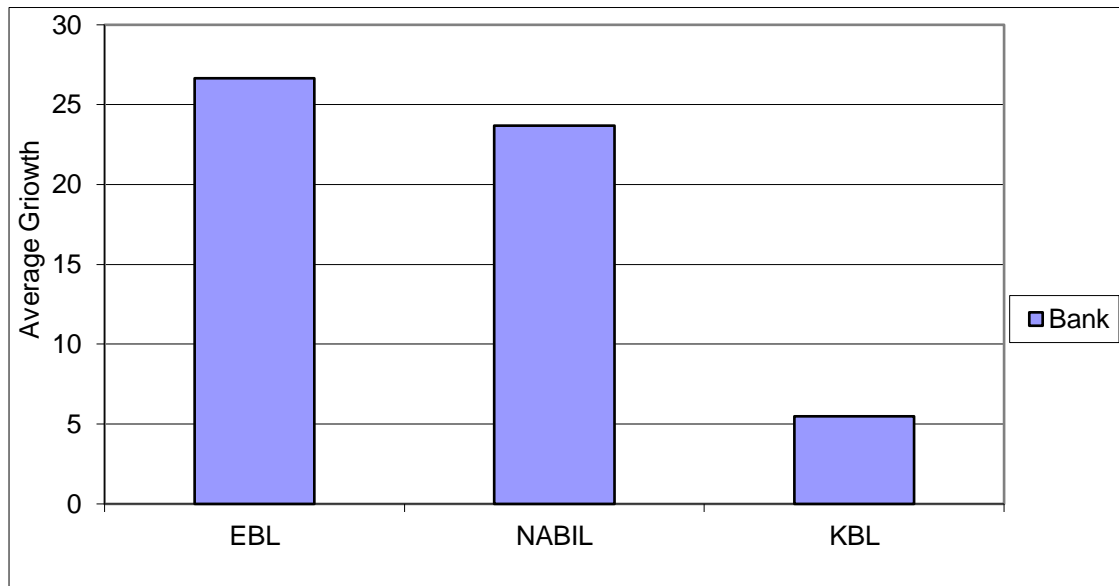
**Figure 4.5**  
**Auto Loan-Contribution in Loan and Advance**



(Source: Table 4.2)

EBL and KBL were able to grab the Nepalese consumer for Auto lone segment by providing Auto loan of Rs. 4703.57 million and Rs. 2931.72 million in 063/64. EBL and KBL disbursed the Auto Loan by contributing 25 and 25.62 percent in loan and advance in the same fiscal year. At the side of Nabil, the data reveals that it has granted auto loan of Rs. 2833.16 million and becomes the follower of EBL and KBL. In loan and advance, it holds 13.15 percent in the same year.

**Figure 4.6**  
**Average Growth Rate in Auto Loan**



(Source: Table 4.2)

In Auto loan disbursement Everest bank is the leader followed by Nabil and KBL. At the side of average growth rate, the data reveals that EBL has highest average growth of 26.67 percent and followed by Nabil and KBL.

#### **4.4 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 banks.

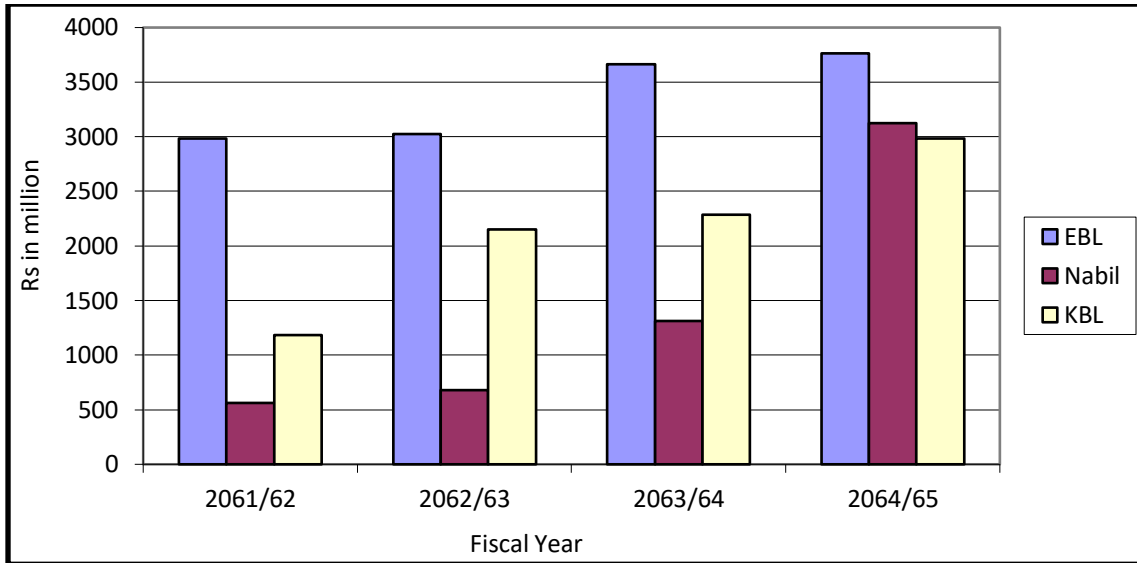
**Table 4.3****Personal Loan: Position Contribution and Average Growth**

<b>Year</b>		<b>2061/62</b>	<b>062/63</b>	<b>063/64</b>	<b>064/65</b>	<b>Average Growth rate for home loan</b>
<b>Bank</b>						
<b>EBL</b>	Loan amount (Rs. In million)	2981.10	3025.61	3665.48	3762.86	17.50%
	Contribution in loan and advance	39.13%	30.87%	26.83%	20%	
<b>Nabil</b>	Loan amount (Rs. In million)	563.80	681.90	1311.24	3122.20	83.67%
	Contribution in Loan & advance	3.87%	3.80%	6.71%	14.49%	
<b>KBL</b>	Loan amount (Rs. In million)	1181.24	2151.25	2288.10	2982.68	39.80%
	Contribution in loan and advance	14.29%	21.78%	21.48%	26.07%	

*(Sources: Annual Report and Internal Sources, Appendix; VII, VIII, IX)*

Table 4.3 depicts that in fiscal year 064/65. EBL has disbursed the personal loan of Rs. 3762.86 million by contributing 20 percent to total loan and advance. Where as Nabil bank Loan to personal was Rs. 3122.20 million having contribution of 14.49 percent to loan and advance. KBL followed these two banks by providing personal loan to Nepalese consumer of Rs. 2982.68 million being contributed by 26.07%

**Figure 4.7****Personal Loan Disbursement by Banks**

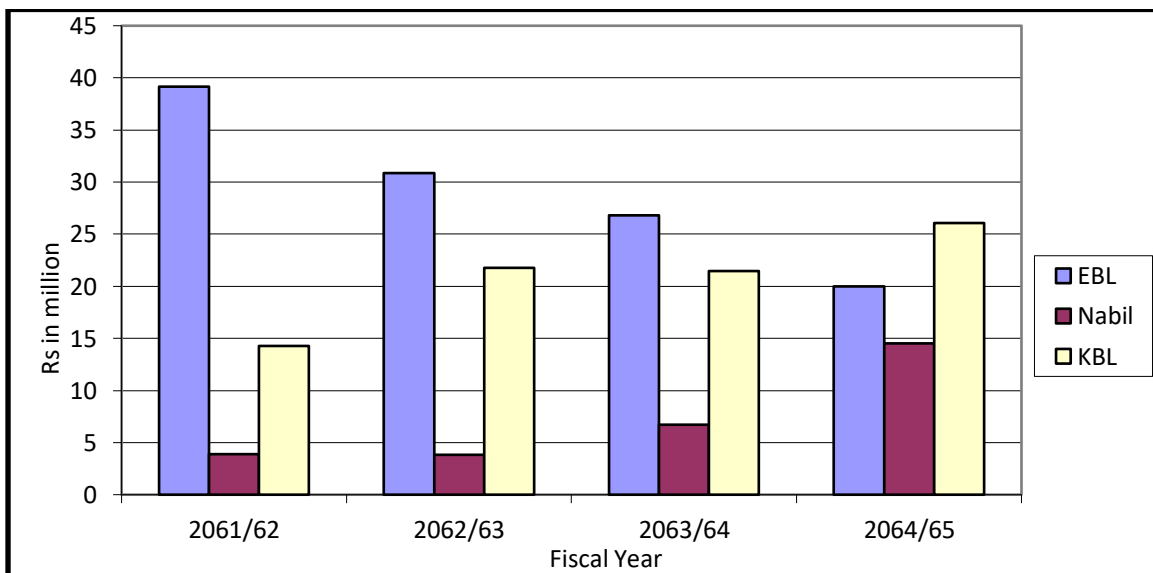


(Source: Table 4.3)

EBL leads the personal loan segment of the retail banking by disbursing personal loan in all fiscal year. The above figure also proved that EBL maintained its leadership in personal loan in all year. It has disbursed personal loan of Rs. 2981.1., 3025.61, 3665.48 and 3762.86 million in 2061/62, 2062/63, 2063/64 and 2064/65 respectively. In this four year personal loan has made significant contribution in total loan and advance of 39.13, 30.87, 26.83 20 percent respectively.

**Figure 4.8**

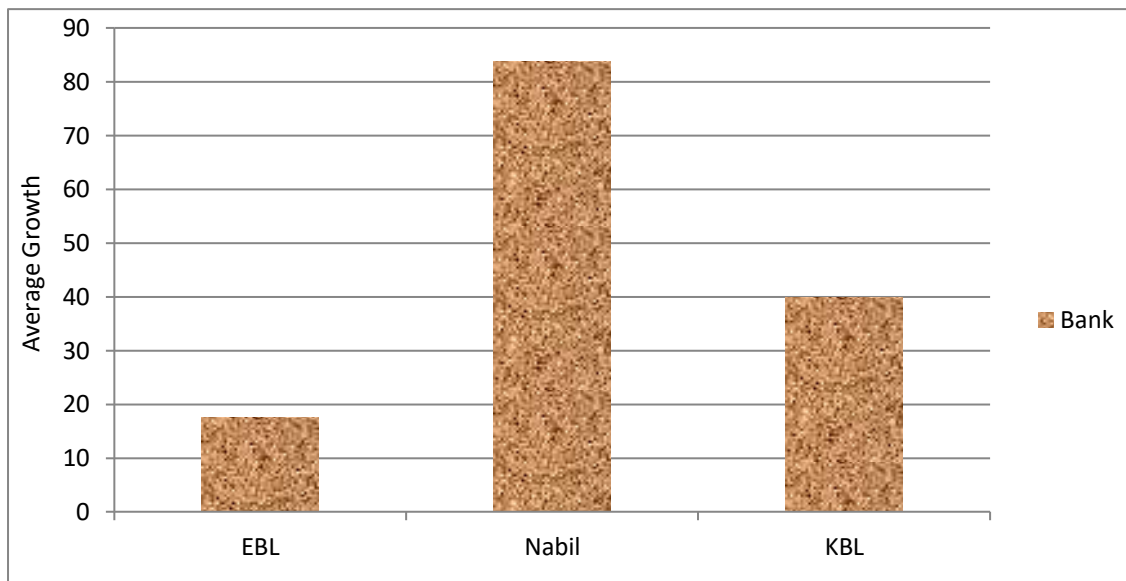
**Personal Loan- Contribution in Loan and Advance**



(Source: Table 4.3)

EBL and KBL were able to grab the Nepalese consumer for personal loan segment by providing personal loan of Rs. 2981.10, 3025.61, 36665.48 & 3762.86 million and Rs. 1181.24, 2151.25, 2288.10, & 2982.68 million in 061/62 to 064/65 respectively. EBL is contributing 39.13, 30.87, 26.83 & 20 percent in loan and advance and KBL contributing 14.29, 21.78, 21.48 and 26.07 percent in the fiscal year 061/62 to 064/65 respectively. At the side of Nabil bank, the data reveals that it has granted personal loan is less among them and becomes the follower of EBL and KBL. In loan and advance, it holds 3.87, 3.80, 6.71 and 14.49 percent in the year 2061/62 to 2064/65 respectively.

**Figure 4.9**  
**Average Growth Rate in Personal Loan**



*(Source: Table 4.3)*

In personal loan segment, Nabil has shown best performance having highest average growth rate of 83.67percent and followed by EBL and KBL.

#### **4.5 Relationship between Retail Banking Products and Total Loan and Advance**

One of the main objectives of this study is to know the relationship between retail banking and loan and advance. In other words, the major motive is to explore to chunk of home loan, Auto loan and personal loan out of total loan and advance. Since in past few years, financial institutions are not getting appropriate avenue for investment. So they are forced to search new sectors for investment and ultimately inter into retail banking. This scenario has diverted the most of the invest able fund of bank to retail sectors. To some extent such finance is good, but large finance on such sector is not good for country's economy because they are non productive sector. They do not give any contribution to the growth of economy. So by this analysis it is tried to know the relationship of retail banking to total loan and advance.

#### 4.5.1 Analysis of Correlation Coefficient between Home Loan and Total Loan and Advance for EBL, Nabil and KBL

The coefficient of correlation between Home loan relationship between and advance is to measure the degree of relationship between two variables. The following table no. 4.4 describes the relationship between home loan and total loan and advances of EBL, Nabil and KBL with comparative under four years study period. In the following case, home loan its independent variable (x) and total loan and advances is dependent variables (y).

**Table 4.4**

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

Banks	Base of Evaluation			
	r	R <sup>2</sup>	P.E.	6 × P.E.
EBL	0.9621	0.9256	0.0251	0.1505
NABIL	0.9545	0.9110	0.0445	0.2670
KBL	0.9399	0.8834	0.0393	0.2358

(Sources: Appendix X, XI, XII)

Table 4.4 depicts that there is high degree of positive correlation coefficient between the home loan with total loan and advance. It indicates that higher loan and advance higher the home loan. So, to boost the home loan the banks must increase its total loan and advance. The compellation coefficient between home loan and total loan and advances value of EBL, Nabil and KBL are 0.9621, 0.9545 and 0.9399 respectively.

The value of coefficient of determination (R<sup>2</sup> of EBL is 0.9256, which means 92.56 percent of total loan and advances decision is depend upon home loan and only 7.44 percent loan and advances depend upon other variables. The value of R<sup>2</sup> of Nabil bank is 0.9110 which means that 91.10 percent of loan and advances decision is depend upon home loan and only 8.90 percent loan and advance depend upon other variables. Similarly, the value of R<sup>2</sup> of KBL is 0.8834 which mean's 88.34 percent of loan and advances decision is depend upon home loan and only 11.66 percent loan and advances depend upon other variables.

By considering the probable error (P.E.), the value of r is greater than the 6 times of P.E., i.e.  $0.9621 > 0.1505$ ,  $0.9545 > 0.2670$  and  $0.9399 > 0.2358$ . This indicates that there is significant relationship between home loan and total loan and advances.

#### 4.5.2 Analysis of Correlation Coefficient between Auto Loan and Total Loan and Advance for EBL, NBIL and KBL

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

**Table 4.5**  
**Correlation Coefficient between Auto Loan and Total Loan and Advance**

Banks	Base of Evaluation			
	r	R <sup>2</sup>	P.E.	6 × P.E.
EBL	0.9820	0.9643	0.0120	0.0720
Nabil	0.9063	0.8213	0.0603	0.3618
KBL	0.5305	0.2815	0.2423	1.4537

(Sources: Appendix XIII, XIV, XV)

Table 4.5 depicts that the correlation coefficient between Auto loan and Total loan and advances value of EBL, Nabil and KBL and 0.9820, 0.9063 and 0.5305 respectively. This shows the high degree of positive condition coefficient between Auto loan and total loan and advance. It indicates that the higher loan and advance higher the Auto loan. So, to boost the Auto loan the banks must increase the loan and advance.

The value of R<sup>2</sup> of EBL is 0.9643, which means 96.43 percent of total loan, and advances decision is depend upon Auto loan and only 3.57 percent loan and advance depend upon other variables. The values of R<sup>2</sup> of Nabil Bank 0.8213 which means that 82.13 percent of loan and advances decision is depend upon Auto loan and only 17.87 percent loan and advances depend upon other variables. KBL 0.2815 that means that 28.15 percent of loan and advances decision is depend upon Auto loan and 71.85 percent loan and advances depend upon other variables.

By considering the probable error (P.E.), the value of r is greater than the 6 times of P.E., i.e.  $0.9820 > 0.0720$ ,  $0.9063 > 0.3618$  EBL and Nabil which indicates that there is significant relationship between Auto loan and total loan and advances. The value of r



is less than 6 times of P.E. i.e.  $0.5305 < 1.4537$ , which indicates that there is no significant relationship between Auto loan and total loan and advances of KBL.

#### 4.5.3 Analysis of Correlation Coefficient between Personal Loan and Total Loan and Advance for EBL, Nabil and KBL

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, Nabil and KBL with comparative under Four years study period.

**Table 4.6**

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

<b>Banks</b>	<b>Base of Evaluation</b>			
	<b>r</b>	<b>R<sup>2</sup></b>	<b>P.E.</b>	<b>6 × P.E.</b>
EBL	0.9295	0.8640	0.0458	0.2748
Nabil	0.8485	0.7199	0.0944	0.5664
KBL	0.9846	0.9694	0.0103	0.0618

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

Table no. 4.6 depicts that the correlation coefficient between personal loan and total loan and advances value of EBL Nabil and KBL are 0.9295, 0.8485 and 0.9846 respectively. This shows the high degree of positive correlation coefficient between personal loan and total loan and advance. It indicates that the higher loan and advance higher the personal loan. So, to boost the personal loan the banks must increase the loan and advance.

The value of R<sup>2</sup> of EBL 0.8640 which means 86.40 percent of total loan and advances and the value of R<sup>2</sup> of Nabil 0.7199 which means 71.99 percent of total loan & advance. Decision is depend upon personal loan and only 13.60 and 28.01 percent respectively loan and advance depend upon other variables. The value of R<sup>2</sup> of KBL is 0.9694, which means that 96.94 percent of loan and advances decision is depend upon personal loan and only 3.06 percent loan and advances depend upon other variables.

By considering the probable error (P.E.), the value of r is greater than the 6 times of P.E., i.e.  $0.9295 > 0.2748$ ,  $0.8485 > 0.5664$  and  $0.9846 > 0.0618$ . Which indicates that there is significant relationship between personal loan and total loan and advances.

## 4.6 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.

### 4.6.1 Trend Analysis of Home Loan for EBL, Nabil and KBL

In this section, an attempt has made to analyze the trend amount of home loan for EBL, Nabil and KBL and to forecast the home loan for the coming two years.

**Table 4.7**  
**Trend Analysis of Home Loan for EBL, Nabil and KBL**

(in million)

Year	EBL		Nabil		KBL	
	Home Loan	Trend Value	Home Loan	Trend Value	Home Loan	Trend Value
061/62	1059.29	651.44	682.41	614.83	1771.38	1926.35
062/63	1815.48	2231.12	932.56	1017.99	2182.27	2492.28
063/64	2624.11	3810.81	1389.28	1421.15	3143.10	3058.21
064/65	6585.01	5390.51	1874.04	1824.31	4004.19	3624.14
065/66	-	6970.19	-	2227.47	-	4190.07
066/67	-	8549.88	-	2630.63	-	4755.99
Mean(a)		3020.97	Mean (a)	1219.57	Mean (a)	2775.24
Rate of Charge (b)		1579.69	Rate of charge (b)	403.16	Rate of charge (b)	565.93
Trend Equation		$3020.97 + 1579.69 * X$	Trend Equation	$1219.57 + 403.16 * X$	Trend equation,	$2775.24 + 565.93 * X$

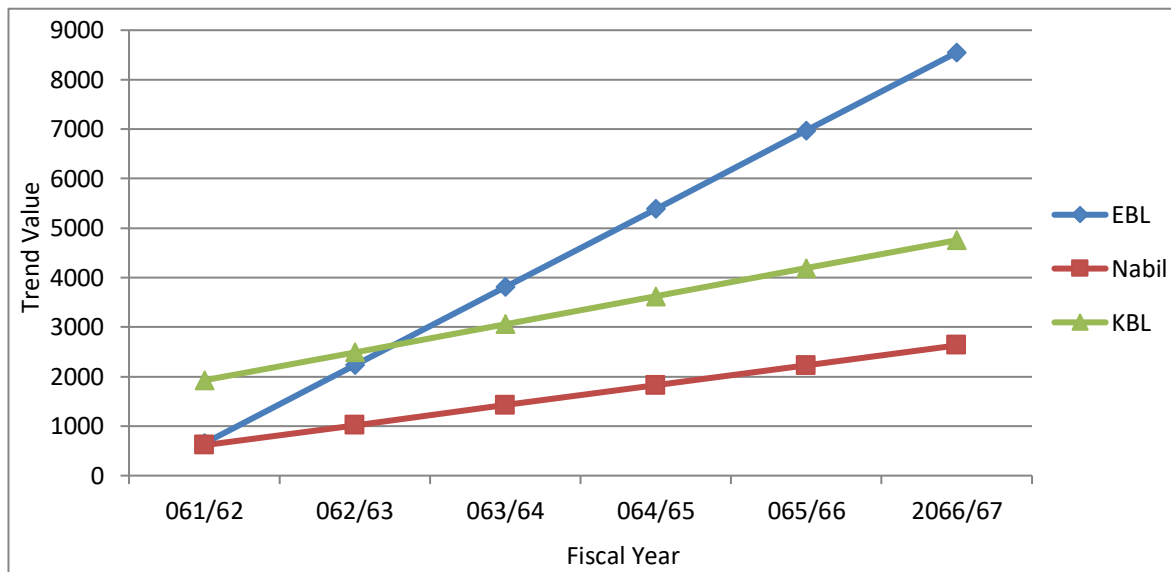
(Sources: Sources: Appendix XIX, XX, XXI)

Table 4.7 depicts that the amount of home loan of all banks trend. The rate of charges EBL, nabil and KBL are Rs. 1579.69 million, Rs. 403.16 million and Rs. 565.93 million respectively. The mean home loan of EBL's Rs. 3020.97 million Nabil bank's Rs. 1219.57 million and KBL's Rs. 2775.24 million in the study period.

If other things remaining same, the home loan of EBL, Nabil and KBL for the fiscal year 065/66 will be Rs.6970.19 million, Rs. 2227.47 million and Rs. 4190.07 million respectively. Similarly, the home loan of same banks for the fiscal year 066/67 will be Rs. 8549.97 million, Rs. 2630.63 million and Rs. 4755.99 million respectively. These facts loan be presented is Graph to make clear as following.

**Figure 4.10**

**Trend Analysis of Home Loan for EBL, Nabil & KBL**



(Source Table 4.7)

Above the figure No.4.10 shows that the trend value of home loan for EBL, Nabil and KBL. In this trend line analysis EBL lead the trend line and other two are followed the EBL. All trend lines of the banks are in increasing trend. It indicates that the bank provide the home loan is in increasing trend.

**4.6.2 Trend Analysis of Auto loan for EBL, Nabil and KBL**

The following table 4.8 shows the trend amount of Auto loan for EBL, NABIL and KBL and forecasted amount for the coming two years

**Table 4.8**  
**Trend Analysis of Auto Loan for EBL, Nabil and KBL**

(in million)

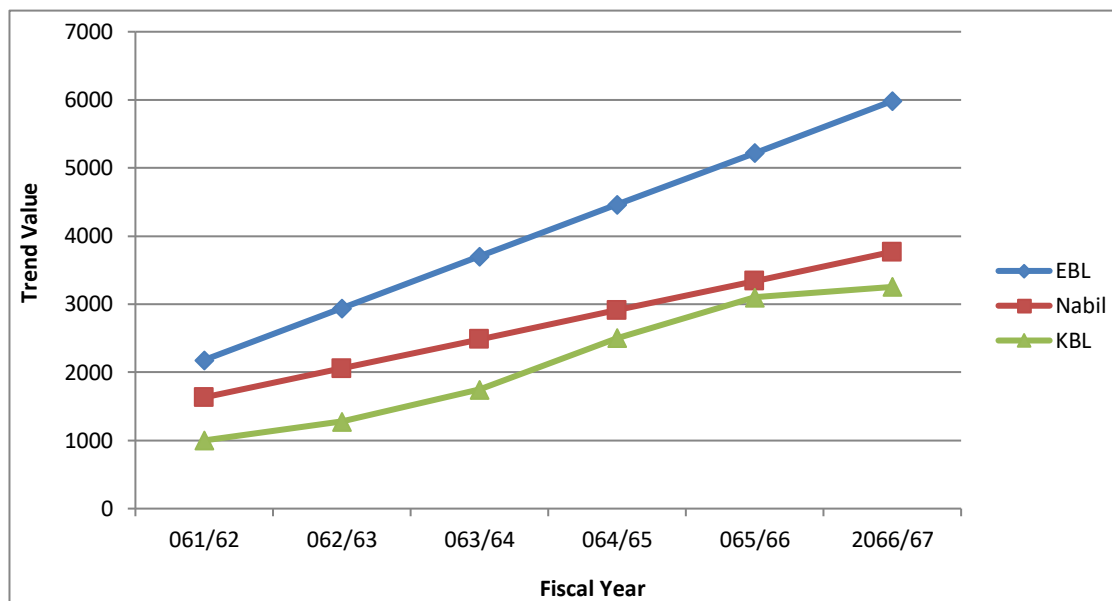
Year	EBL		Nabil		KBL	
	Auto Loan	Trend Value	Auto Loan	Trend Value	Auto Loan	Trend Value
061/62	2411.31	2181.86	1516.52	1632.78	2524.21	3837.58
062/63	2524.10	2942.15	1710.93	2060.12	2536.10	1279.19
063/64	3850.18	3702.44	2034.55	2487.46	2860.13	2790.36
064/65	4503.57	4462.73	2833.16	2914.80	2931.72	2944.98
065/66	-	5223.02	-	3342.14	-	3099.67
066/67	-	5983.31	-	3769.48	-	3254.32
Mean(a)		3322.29	Mean (a)	2273.79	Mean (a)	2713.04
Rate of Charge (b)		760.29	Rate of charge (b)	427.34	Rate of charge (b)	154.65
Trend Equation		$3322.29+760.29*X$	Trend Equation	$2273.79+427.34*X$	Trend equation	$2713.04+154.65*X$

*Sources: Appendix XXII, XXIII, XXIV*

Table 4.8 depicts that the amount of Auto loan of all banks are in increasing trend. The rate of charges of EBL, Nabil and KBL are Rs. 760.29 million, Rs. 427.34 million and Rs. 154.65 million respectively. The mean Auto loan of EBL's Rs. 3322.29 million, Nabil bank's Rs. 2273.79 million and KBL's Rs. 2713.04 million in the study period.

If other things remaining the same, the Auto loan of EBL Nabil and KBL for the fiscal year 065/66 will be Rs. 5223.02 million, Rs. 3342.14 million and Rs. 3099.67 million respectively. Similarly, the Auto loan of same banks for the fiscal year 066/67 will be Rs. 5983.31 million, Rs. 3769.48 million and Rs. 3254.32 million respectively. These facts can be presented in Graph 4.11 to make clear as followings.

**Figure 4.11**  
**Trend Analysis of Auto Loan for EBL, Nabil & KBL**



Source: Table 4.8

Above the figure 4.11 shows that the trend line of Auto loan for EBL, Nabil and KBL. EBL and Nabil bank's trend line is in increasing from 2061 to 2066. But Trend line of KBL is in decreasing trend in 2061/62 and highly increased in 2063/64 then after it is going on smoothly in increasing trend.

**Trend Analysis of Personal Loan for EBL, Nabil and KBL**

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

**Table 4.9****Trend Analysis of Personal Loan for EBL, Nabil and KBL**

(in million)

Year	EBL		Nabil		KBL	
	Personal Loan	Trend Value	Personal Loan	Trend Value	Home Loan	Trend Value
061/62	2981.10	2085.99	563.80	174.10	1181.24	1360.14
062/63	3025.61	2384.51	681.90	1004.56	2151.25	1887.26
063/64	3665.48	2683.02	1311.24	1835.00	2288.10	2414.37
064/65	3762.86	2981.52	3122.20	2665.46	2982.68	2941.48
065/66		3280.04		3495.90		3468.59
066/67		3578.54		4326.34		3995.70
Mean(a)		2533.76	Mean (a)	1419.78	Mean (a)	2150.81
Rate of Charge (b)		298.51	Rate of charge(b)	830.45	Rate of charge (b)	527.11
Trend Equation		$2533.76+298.51*X$	Trend Equation	$1419.78+830.45*X$	Trend equation	$2150.81+527.11*X$

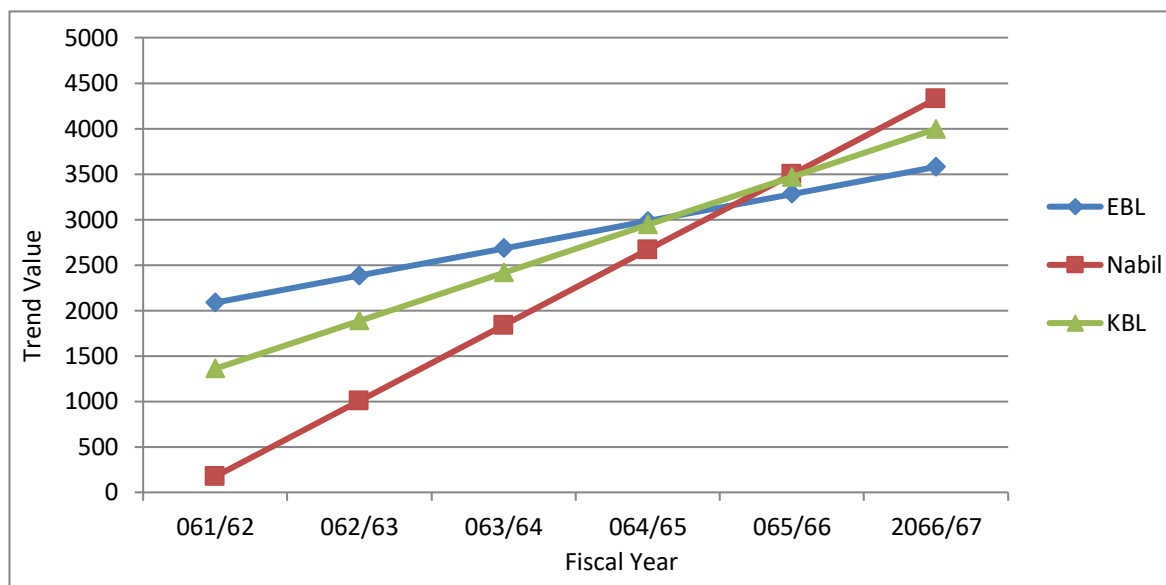
Sources: Appendix XXV, XXVI, XXVII

Table 4.9 depicts that the amount of personal loan of all banks are in increasing trends. The rate of charges of EBL, Nabil and KBL are Rs. 298.51 million, Rs. 830.45 million and Rs. 527.11 million respectively. The mean personal loan of EBL's Rs. 2533.76 million, Nabil bank's Rs. 1419.78 million and KBL's Rs. 2150.81 million in the study period.

If other things remaining the same, the personal loan of EBL, Nabil and KBL for the fiscal year 065/66 will be Rs. 3280.04 million, Rs. 3495.90 million and Rs. 3468.59 million respectively. Similarly, the personal loan of same Banks for the fiscal year 066/67 will be Rs. 3578.54 million, Rs. 4326.34 million and Rs. 3995.70 million respectively. These facts can be presented is graph 4.12 to make clear as followings.

**Figure 4.12**

**Trend Analysis of Persona Loan for EBL, Nabil & KBL**



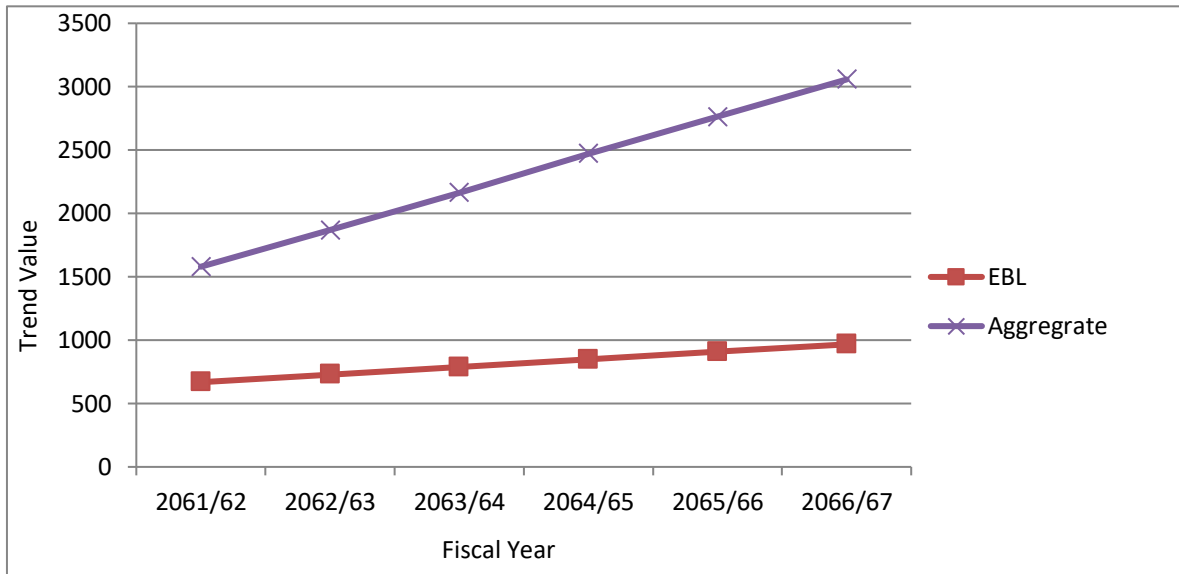
*Source: Table No-4.9*

Above the figure 4.12 is trend analysis of personal loan for EBL, Nabil and KBL. In this trend analysis Nabil bank lead the trend line and KBL and EBL followed the Nabil. The personal loan for EBL, Nabil and KBL is in increasing trend. This indicates that the banks get the success in personal loan.

**Trend Analysis of Retail Banking for EBL, Nabil and KBL with Aggregate Trend Line of Commercial Bank**

In the conclusion of trend analysis I have compared the trend line of sample bank i.e., EBL, Nabil and KBL with aggregate trend line of commercial bank, which is presented as follows.

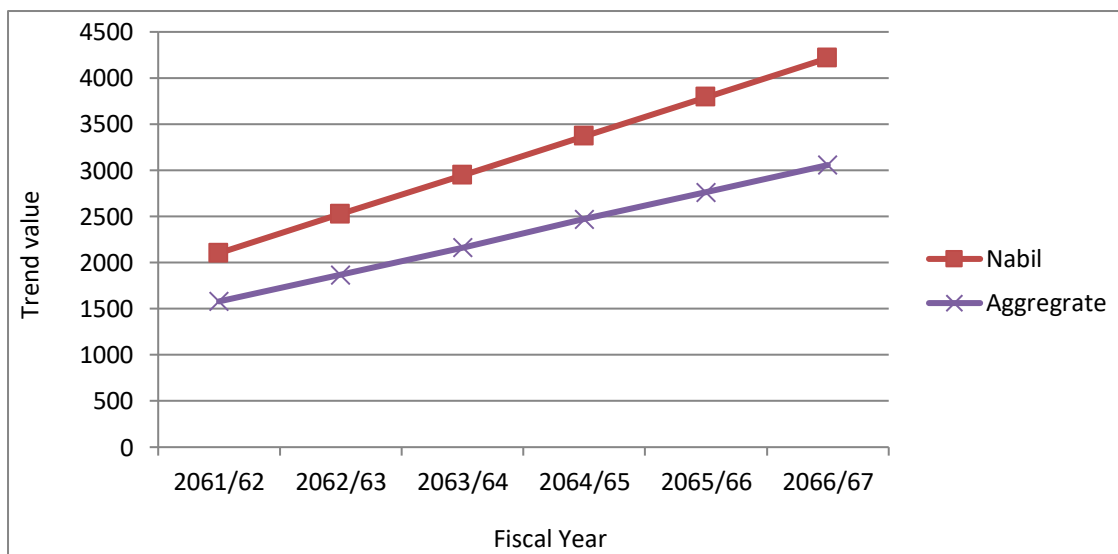
**Figure 4.13**  
**Trend Analysis of EBL with Aggregate Trend Line**



Source: Appendix 29.26

Figure 4.13 shows that the trend line of retail banking for EBL with aggregate trend line of retail banking for commercial bank. This trend line indicate that the aggregate trend line of commercial bank is in increasing trend and trend line of EBL also in increasing trend but cooperatively it is less increasing than aggregate trend line.

**Figure 4.14**  
**Trend Analysis of Nabil with Aggregate Trend Line**

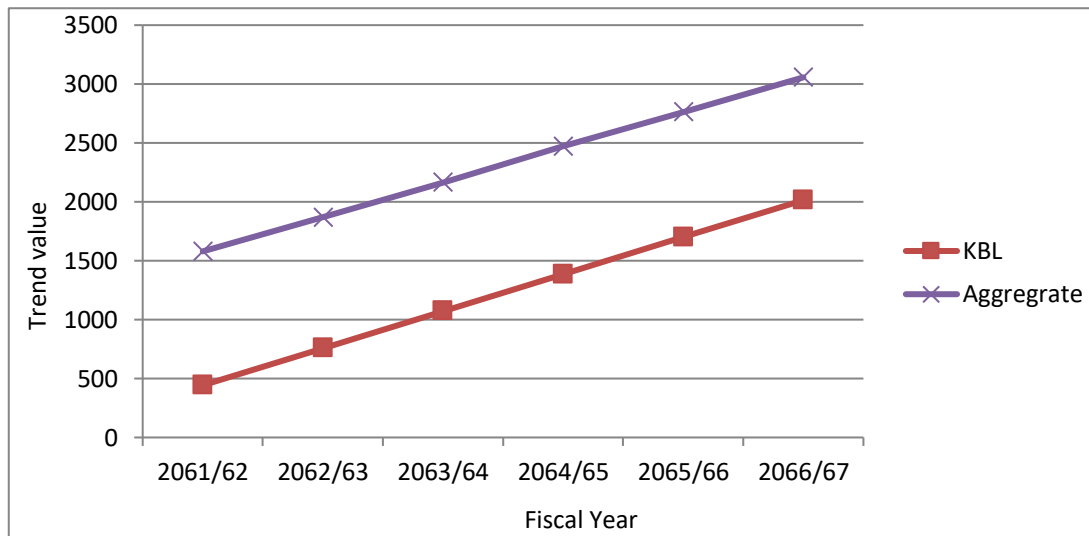


Source: Appendix 29.26



Above the figure 4.14 indicate that the trend line of retail banking for Nabil Bank with aggregate trend line of commercial bank. Nabil Bank is the best bank in Nepalese banking industries so it has better position in retail banking/product comparison with aggregate retail banking/product of commercial bank. Obviously trend line of Nabil Bank is better than the aggregate trend line of commercial bank.

**Figure 4.15**  
**Trend Analysis of KBL with Aggregate Trend Line**



Source: Appendix 29.26

Figure no 4.15 shows that the trend line of retail banking for KBL with aggregate trend line of commercial bank. This figure indicates that the trend of KBL and commercial bank are in positive increasing trend that mean KBL follows the aggregate trend line of commercial bank.

To analysis the trend line of retail banking, I have calculated the trend value of 25 banks. Among them I took three banks for sampling i.e., EBL, Nabil and KBL. Rastriya Banijaya Bank and Nepal Bank Ltd. are established as a government bank. These two banks are highly affected by government rules and regulation. In Nepal, political situation is worse for ten years. So that, they are not in progressing. Due to the instability of government and Maoist movement, they couldn't provide the retail product to the people. Trend value of Rastriya Banijaya Bank and Nepal Bank ltd are in decreasing trend from 2061/62 to till date. Nine Joint venture Bank highly succeeds to provide the retail product to the people and rest of the commercial bank followed to

the joint venture bank. Trend value of GBL, Prime BOA, DCBL and NMB are newly established bank and they also have good position of retail product from starting period. It indicates that the existing situation of retail banking in Nepal is newly introducing in Nepalese market (*Source: Appendix 28.1 to 28.25*).

#### **4.7 SWOT Analysis of EBL, Nabil and KBL**

SWOT analysis tool is used for measuring the effectiveness of banks (EBL, Nabil, KBL). 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 three banks (i.e., EBL, Nabil and KBL), these three 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.

SWOT stand for:

- Strength of bank
- Weakness of bank
- Opportunity of bank
- Threats of bank

On the basis of above factors SWOT analysis of bank is carried out as under

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

###### **Strength:**

1. It has strong financing position
2. It is able to increase its Retail product
3. EBL providing other function excepting accepting deposit and advancing loan (remittance, agency function)
4. This bank performs the function of commercial bank
5. It has good policy, performance to attract its customer.

6. It has opened most of its business area so it is in growing stage.
7. Well, trained and qualified personnel.
8. It has already established itself as an innovative bank
9. It has Well capital structure
10. It has Systematic & computerized work

**Weakness:**

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

**Opportunities:**

1. EBL aiming to raises its branches, which provide more opportunity to skilled personnel.
2. Many people deposit their fund and take loan from it, which help to increase in profit of bank and general shareholders.
3. Retail product plays important role in the economic development of the nation.
4. Because of the large international net worth and source of capital base, the bank can obtain lower cost deposit
5. It can extend its network of branches
6. It should provide loan to introduces in the market
7. It should provide Master Card, ATM card, Locker Facilities
8. It should provide network system

**Threats:**

1. Competition in banking sector is rapidly increased, lost of joint venture banks are established in Nepal to provide advanced services to the Nepalese people.
2. Government police relating to banking sector is conflicting

3. The economic condition of the nation is consistence due to political situation
4. Geographic expansion has help to make bank less vulnerable to local condition.
5. Banks are facing with higher operating cost in comparison to reduced bank charge and interest earned in recent year.

#### **4.7.2 SWOT Analysis of Nabil Bank Limited**

##### **Strength:**

- 1) It has strong financing position
- 2) It is able to increase its Retail product
- 3) This bank performs the function of commercial bank)
- 4) It has good policy, performance to attract its customer.
- 5) It has opened most of its business area so it is running smoothly
- 6) Well, trained and qualified personnel.
- 7) It has already established itself as an innovative bank
- 8) It has Well capital structure
- 9) It has Systematic & computerized work

##### **Weakness:**

1. Most of the branch offices are located to the urban area neglecting rural area.
2. A large number of branches increase the operating cost of the bank.
3. The bank is not providing sufficient loan in agriculture sector, as it is an agricultural based country.
4. Lack of providing loan to cottage & small industries to uplift the country agricultural products.

##### **Opportunities:**

1. Nabil bank's aiming to raises its branches, which provide more opportunity to skilled personnel.
2. Many people deposit their fund and take loan from it, which help to increase in profit of bank and general shareholders.
3. Because of the large international net worth and source of capital base, the bank can obtain lower cost deposit
4. It can extend its network of branches

5. It should provide loan to introduces in the market
6. It should provide Master Card, ATM card, Locker Facilities so on
7. It should provide network system

**Threats:**

1. Competition in banking sector is rapidly increased, lost of joint venture banks are established in Nepal to provide advanced services to the Nepalese people.
2. Government police relating to banking sector is conflicting
3. The economic condition of the nation is consistence due to political situation
4. Geographic expansion has help to make bank less vulnerable to local condition.
5. Banks are facing with higher operating cost in comparison to reduced bank charge and interest earned in recent year.

**4.7.3 SWTO analysis of Kumari Bank Limited (KBL)**

**Strength:**

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

**Weakness:**

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

**Opportunities:**

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

**Threats:**

1. Competition in banking sector is rapidly increased, lost of joint venture banks are established in Nepal to provide advanced services to the Nepalese people.
2. Government police relating to banking sector is conflicting
3. The economic condition of the nation is consistence due to political situation
4. Geographic expansion has help to make bank less vulnerable to local condition.
5. Banks are facing with higher operating cost in comparison to reduced bank charge and interest earned in recent year.

**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 belong to commercial banks managers, 10 respondents belong to commercial bank officers, 6 belong to academicians and 24 respondents belong to commercial bank's customers. Among them 21 respondents are male and 24 respondents are female.

All together 45 respondents are analyzed in this section. In the first query that, what is the view about present pace of retail banking in Nepal. Thirty-two of the respondents

agree that the retail banking trend is in increasing, 4 respondents disagree and 9 respondents did not make any response. The second query was if the retail banking is a good deal for both customers and banks. Thirty-eight respondents showed their agreement 3 of them disagreed while 4 respondents, as they do not know.

In the third query, respondent were asked whether they buy or not retail banking product, 28 respondents as yes and 17 respondents as No. This contest majority of respondent still have not purchased retail-banking product offered by bank.

In the Fourth question, the respondent was given to option to buy the retail-banking product and was requested to rank the option. The responses record is presented in panel A and its analysis is presented in panel B respectively.

**Panel A**

**Panel B**

Option	Rank			Mean	Ranking
	1	2	3		
Home Loan	37	5	3	1.24	1
Auto Loan	32	8	5	1.46	2
Personal Loan	9	28	8	2.11	3
Others (Innovation Product)	16	8	21	2.20	4

*(Source Appendix 29.4)*

In the first panel, the responses of the sample have been presented as it is. Some of the respondents did not assign the ranks for the given alternatives. On the basis of the presentation of the responses; the respondents rank home loan the first. Auto loan seems to be more preferred among the Nepalese customers compared to other schemes.

The fifth query was what factor will motivate 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. Following table contains response of respondent against the different factors. Panel A contains response score and Panel B contains composite mean and ranking.

**Panel A****Panel B**

Factors	Rank					Mean	Ranking
	1	2	3	4	5		
Low interest rate	24	10	4	3	4	1.95	1
Promotion and adv-campaign	11	15	7	5	7	2.60	2
Innovation product affected by Bank	9	10	12	6	8	2.86	3
To maintain social status	5	8	16	4	12	3	4
For better life style	5	7	17	4	12	3.24	5
To make future secure	4	5	20	7	9	3.26	6

(Source: Appendix 29.5)

Among the six factors provided, the respondent ranked that the customer would motivate to get the loan in the market if the loan interest rate is decreases. Different promotion and advertisement campaign would tend to motivate the customers in the second position considered by respondents. They ranked that they are motivated by innovation product in the third. They also ranked maintain social status, better life style and future score are fourth, fifth and sixth respectively.

In the sixth query that of the retail banking helps to increase the overall performance of the commercial banks majority of the respondent should their agreement. And in the seventh question, respondent were requested to rank the different statement to support the above query.

Following table contains responses of respondent opener as retail banking helps to increase the overall performance the commercial banks. Panel A contains response score and panel B contains composite mean and rank.

**Panel A****Panel B**

Statement	Rank					Mean	Ranking
	1	2	3	4	5		
Reduce NPA	28	2	1	2	2	1.40	1
Increase bank's profit	28	8	2	4	3	1.80	2
Helps to technology innovation	10	11	9	10	5	2.40	3
Increase quality service and quick delivery	12	11	8	6	8	2.70	4
Helps to reduce cost	16	10	8	7	4	2.71	5

(Source: Appendix 29.6)



As in other cases the respondents didn't make a tike to every statement no responses number has also been presented against the respective statement. Nevertheless, weighted average means have been calculated considering total number of responses that is fourth five. Reduction in non-performing 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 retail banking helps to technology innovation in third and quality service and quick delivery in fourth. And cost reduction in the Fifth ranked.

Following table is the collection of respondent's opinion as Nepalese commercial bank faces difficulties to the growth of retail banking. Panel A contains response score and Panel B can attain composite mean and ranks.

**Panel A**

**Panel B**

Factor	<i>Rank</i>					Mean	Ranking
	1	2	3	4	5		
The legal process is tedious & lengthy	35	6	1	2	1	1.40	1
The staff are not highly competent	14	12	10	5	4	2.40	2
The bank faces difficulties from the competitive market	15	10	8	8	4	2.46	3
The bank has not sufficient customer segment to match the requirements of customer	14	10	9	7	5	2.53	4
The present rules and regulation is not sufficient for retail banking growth.	14	11	8	5	7	2.55	5

*Source: Appendix 29.6*

Above table shows that the mean score of the statements under the study was found to be legal process is tedious & lengthy is in ranked first, the staff are not highly competent in second ranked in third the Nepalese commercial bank faces many difficulties for the growth of retail banking. Commodity the results, the mean score of the item the legal process is tedious and lengthy" was found the coyest. This indicates that the procedure of getting loan is lengthy and tedious. To improve the situation, commercial bank, should imprudence new technology and revised its process.

Insufficient customer segment has been found to be the second relevant factor to be faces by commercial bank in the opinion of the respondent followed by less

competent staff and increase in competitive market. They also ranked insufficient rules and regulation in the fifth.

The sixth query, following table contains responses of respondent opener as retail banking helps to increase the overall performance the commercial banks. Panel A contains response score and panel B contains composite correlation coefficient, coefficient of determination and probable error (r).

Option	Questioner		$r_{xy}$	0.89
	Bank's staff (x)	Customer (y)		
Strongly agree	8	12	$r^2$	0.7921
Agree	10	8		
Don't agree	2	4	P.E.(r)	0.0627
Dis Agree	1	0		
Strongly disagree	0	0	P.E.(r) x 6	0.3762
Total	21	24		

Sources: Appendix 28.6

The correlation coefficient between bank's staff and customer is to measure the degree of relationship between two variables. The above table no. 4.12 describes the relationship between the view of bank's staff and customer about the retail banking helps to increase the performance of commercial bank.

Table depicts that the correlation coefficient between bank's staff and customer. Value of correlation is 0.89. This shows the high degree of positive correlation coefficient between view of bank's staff and customer. It indicates that the retail banking helps to increase the performance of commercial bank in Nepal.

The value of  $R^2$  is 0.7921, which means 79.21 percent performance is related with bank's staff and rest 20.79 percent performance is depended on other variables.

By considering the probable error (P.E.), the value of r is greater than the 6 times of P.E., i.e.  $0.3762 < 0.89$ . Which indicates that there is significant relationship between bank's staff and customer opinions as retail banking helps to increase the overall performance of commercial banks.

The seventh query, following table is the collection of respondent's opinion as Nepalese commercial bank's staffs and their customer faces difficulties to the growth of retail banking. Panel A contains response score and Panel B can attain composite correlation coefficient, coefficient of determination and probable error (r)

Panel A Option	Questioner		Panel B $r_{xy}$	0.72
	Bank's staff (x)	Customer (y)		
Strongly agree	5	6	$r^2$	0.5184
Agree	7	8		
Don't agree	3	2	P.E.(r)	0.1452
Disagree	4	3		
Strongly disagree	2	5	P.E.(r) x 6	0.8712
Total	21	24		

Sources: Appendix 28.7

Above table shows that the correlation coefficient between bank staff and customer view about the facing of difficulties of Nepalese commercial bank. It measures the degree of relationship between two variables.

Table depicts that the correlation coefficient between bank's staff and Customer. Value of correlation is 0.72. This shows the high degree of positive correlation coefficient between view of bank's staff and customer. It indicates that Nepalese commercial banks are facing the high degree of difficulties.

The value of  $R^2$  is 0.5184, which means 51.84 percent view of customer, is independent with bank staff and rest 48.16 percent view affected by other variable.

By considering the probable error (P.E.), the value of r is less than the 6 times of P.E., i.e.  $0.8712 < 0.72$ . Which indicates that there is no significant relationship between bank's staff and customer about the commercial bank facing the problem.

## **4.9 Findings of the Study**

### **4.9.1 Finding from Secondary Data**

- The amount of home loan for all banks under the study is in increasing trend.
- The amount of home loan for EBL, Nabil and KBL was Rs1059.29 million, Rs. 682.41 million and Rs. 1771.38 million respectively in 061/62. And these amounts have increased to Rs. 6585.01 million, Rs. 1874.04 million and Rs. 4004.19 million respectively in 064/65.
- From this result, it is concluded that the position of home loan for EBL, Nabil and KBL is in better position. All the banks are provided greater proportion of their funds on retail banking. But the Everest bank has led the home loan segment by disbursing higher home loan.
- The contribution of home loan in total loan and advance by all banks are in increasing trend.
- The contribution of home loan in total loan and advance for EBL was 13.9 percent, for Nabil was 4.65 percent and for KBL was 21.43 percent in 061/62 and it has reached to 35 percent, 8.7 percent and 35 percent respectively in 064/65. The average growth rate of home loan for these banks is 89, 40 and 31.33 percent respectively.
- From this result, it is concluded that the contribution of home loan in total loan and advance of all sample banks are in better position. Again the average growth rate of the home loan for all sample banks has gained robust growth but Everest bank has shown best performance having higher average growth rate.
- The amount of Auto loan for all sample banks under the study is in increasing trend.
- The amount of Auto loan for EBL, Nabil and KBL were Rs. 2411.31 million, Rs. 1516.52 million and Rs. 2524.21 million respectively in 061/62. And these amount names increased to Rs. 4703.57 million, Rs, 2833.16 million and Rs. 2931.72 million respectively in 064/65.
- From this result, it is concluded that the position of Auto loan for EBL, Nabil and KBL are in better position. But Everest bank has led the Auto loan segment by disbursing higher auto loan in all year.

- The contribution of Auto loan in total loan and advance for EBL was 31.65 percent, for Nabil was 10.35 percent and for KBL was 30.56 percent in 061/62 and it has reached to 25 percent, 13.15 percent and 25.62 percent respectively in 064/65. Average growth rate of Auto loan for these banks are 26.67, 23.67 and 5.50 percent respectively.
- From this result, it is concluded that the contribution of auto loan in total loan and advance by all banks are in increasing trend. But Everest bank has shown best performance having highest contribution. Again the average growth rate of auto loan for EBL and Nabil is comparatively better than KBL.
- The amount of personal loan for all banks under the study is in increasing trend.
- The amount of personal loan for EBL, Nabil and KBL were Rs. 2981.10 million, Rs. 563.80 million and Rs. 1181.24 million respectively in 061/62. And these amounts have increased to Rs. 3762.86 million, Rs. 3122.20 million and Rs. 2982.68 million respectively in 064/65.
- From this result, it is concluded that the position of personal loan for EBL, Nabil and KBL is in better position. But Everest bank leads this segment by disbursing higher personal loan.
- The contribution of personal loan in total loan and advance for EBL was 39.13 percent, for Nabil 3.87 percent and KBL was 14.29 percent respectively in 061/62 and it has reached to 20 percent, 14.49 percent and 26.07 percent respectively in 064/65. The average rates of personal loan for these banks are 17.5 percent, 83.67 percent and 39.80 percent respectively.
- From this result, it is concluded that the contribution of personal loan in total loan and advance of Nabil and KBL is in increasing trend but the percentage of EBL is in decreasing trend in 061/062 to 064/65. But the Nabil has shown best performance having highest average growth rate and disbursement than EBL and KBL.
- This study has found that highly positive correlation coefficient between home loan and total loan and advance of more than 0.93 in all the three banks. As well, it is also found in all three bank's that coefficient of determination is more than 88 percent. These signify that there is significant relationship between correlation coefficient of home loan and total loan and advance of

EBL, Nabil and KBL. But EBL has the highest degree of correlation coefficient between home loan and total loan and advance than other two banks. It states that the EBL is in better position of Home loan as total loan and advance in comparison to Nabil and KBL.

- This study has found that highly positive correlation coefficient between Auto loan and total loan and advance of EBL and Nabil is 0.9820 and 0.9063 but KBL has 0.5305. These signify that there is significant relationship between correlation coefficient of Auto loan and total loan and advance of EBL, Nabil and KBL.
- This study has found that highly positive correlation coefficient between personal loan and total loan and advance of EBL and Nabil but KBL has only positive correlation. As well it is also found in EBL and Nabil have 96.43 percent and 82.13 percent coefficient of determination but the KBL has 28.15 percent. These signify that there is significant relationship between correlation coefficient of personal loan and total advance of EBL, Nabil and KBL. But EBL has the highest degree of correlation coefficient between personal loan and total loan and advance than other two banks. It states that the Everest banks is in better position of personal loan as total loan and advance in comparison of Nabil and KBL,
- From the trend analysis, It is found that the amount of Home Loan of all the three banks are increasing trend. The higher rate of change and maintain of ENL indicates that its increasing trend is better position than Nabil and KBL.
- It is found that the amounts of auto loan for the three banks are in increasing trend. The Rate of change and mean value of EBL is higher than Nabil and KBL. That means the EBL has better increasing trend than Nabil and KBL.
- It is found that the amount of Personal loan of all the three banks is in increasing trend. The rate of change and mean value of EBL is higher than Nabil and KBL. That means the EBL has better increasing trend than Nabil and KBL.
- Due to the political situation Rastriya Banijaya Bank and Nepal Bank limited are in decreasing trend line and other commercial bank are progressive in retail banking.

- I come to know from the SWOT analysis all sampling banks have equal Strength, weakness, opportunity and threats but KBL should maximum utilities it's resource and minimize the risk.,

#### **4.9.2 Finding from Primary Data**

- Most respondent agree that there is increasing trend in retail banking sector.
- Most respondent agree that the retail banking is the good deal for both customer and banks while 3 respondents disagree and 4 respondents that they are unknown about retail banking.
- Majority of respondent have purchased retail -banking product offered by bank. Only 17 respondents still not purchased the retail banking products.
- On the basis of the responses of respondents Auto loan and home loan are major loan for Nepalese customers and academicians.
- Most by the respondent agree that the low interest rate is the most motivating factor to get the loan in the market.
- Majority of the respondent 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.

## CHAPTER- V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

Many commercial bank, development banks and financial institutions are operating in the economy to assist in the process of economic development of the country. Due to high competition between the financial institutions, the collected high amount of deposit from public is not properly invested. It is due to lack of demand for fund. So, it raised the problems of investment and proper mobilization of activities play a vital role in the overall development of economy of the nation.

This study “*Emerging Trends of Retail Banking in Nepal*” is primarily prepaid for the partial fulfillment of the requirements of master of business studies (MBS). This study is mainly based on secondary and primary data provided by concerned banks and respondents. Among the 26 commercial banks 3 commercial banks is selected as a 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 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 2061/062 to 2064/065. The collected information is presented, analyzed and conclusion is drawn from the study.

Chapter one is concerned with the introduction of the whole study. It explained about the selected banks, concentration of the study objectives, statement and organization of the study, which provides guideline for entire study. In chapter two, it is concerned with the review of literature as well as the review of related previous thesis, journals, article and so on. Chapter third is specifies the guidelines, tools and research design to achieve the objectives of the study. In chapter four, for analysis of data, correlation coefficient between the relevant figures, probable error as well as primary data considered as the main statistical tools in this study.

Data are collected through different sector and annual report of related banks. But the primary data are generated through personal interview of banks officers, customer and academicians. All these work are the 4<sup>th</sup> chapter.



## **5.2 Conclusion**

This study "*Emerging Trends of Retail Banking in Nepal*" tried to analyze the existing situation of retail banking in Nepal based on the data provided in the financial statement as well as other concerned information. Present study is successful to explore the findings of the result designed. For the study various statistical tools were used as requirements of nature of data. The secondary as well as primary source of information was used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows:

From this study, the researcher concludes that retail banking trend in Nepal is continuously increasing. Retail banking has started playing 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 products and services. As the perception of retail banking is still quite low in Nepal, there is tremendous upward potential in this segment.

Again, the researcher found that the Nepalese banks need to remain in the competition in retail banking, banks will need to operate efficiently, and package and deliver products on time, leveraging the multiple channels of delivery such as the internet, mobile banking, e-cash and the ATMs. The future of retail banking is dependent on technology, marketing and capital employment on the sector. Technology facilitates reduction in transaction cost and provides the ability to do business in volumes. Banks have to prepare themselves to face a soft interest regime. New kinds of management skills are required to manage the retail-lending portfolio. Banks are competing in the retail banking area on the basis of product innovation, rationalization of service charges, competitive pricing and simplified procedures for documentation.

## **5.3 Recommendations**

Based on the study, it is found that the retail banking is in increasing trend. Among the sample banks Everest banks has disbursed higher amount of Home Auto loan and personal loan. On the basis of the foregoing findings 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 avenues for investment. Regarding this, Everest bank has disbursed large amount of fund for home loan and auto loan. However, other two-sample bank, Nabil and KBL have disbursed little amount of home loan. So it is recommended for them to increase the chunk of 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 come out with product innovation to match the requirements of the customer segments.
- Bank should effort to increase to cover the wide areas by increasing the branch network as well more geographical coverage. In the new area, bank should make effort to tap these areas consumer 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 & 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 etc.
- The procedure to get loan is quite tedious and lengthy. So it is suggested to make the producer 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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## Appendix-29

### Questionnaire

Dear Sir / Madam

I could be very much thankful for your few minutes time to fill up the following questionnaires 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.

Laddu Basnet

Name (Optional):

Position:

Professional experience (in year):

Age (in year)

Organization:

Please answer the following question as they relate to the retail banking.

29.1) What is your view about present pace of retail banking trend in Nepal?

▸ Increasing    ▸ Decreasing    ▸ Don't know

32	4	9
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29.2) Is retail banking a good deal for both customers and banks?

▸ Yes                    ▸ No                    ▸ Don't Know

38	3	4
----	---	---

29.3) Do you ever buy retail-banking product offered by bank?

▸ Yes                    ▸ No                    ▸ Don't Know

21	24	-
----	----	---

29.4) If you have an option to purchase the retail banking product which of the following option do you more priority?

- 1) More priority                      2) Indifference    3) less priority

Alternative	Rank		
	1	2	3
Home loan	37	5	3
Auto Loan	32	8	5
Personal Loan	9	28	8
Others	16	8	21

29.5) What factor will motivate to get loan in the market?

Factors	Rank				
	1	2	3	4	5
Low interest rate	24	10	4	3	4
Promotion and advertisement campaign	11	15	7	5	7
Innovation product offered by bank	9	10	12	6	8
For better lifestyle	5	8	16	4	12
To make future secure	5	7	17	4	12
To maintain social status	4	5	20	7	9

29.6) Do you agree that the retail banking helps to increase the overall performance of the commercial banks? If you agree please rank the following statement.

1. Strongly agree                      2. Agree                      3. Don't agree  
 4. Disagree                      5. Strongly disagree



Statements	Rank				
	1	2	3	4	5
Reduce NPA	38	2	1	2	2
Increases bank's profit	28	8	2	4	3
Increase quality service & quick delivery	10	11	9	10	5
Helps to reduce cost	12	11	8	6	8
Helps to technology innovation	16	10	8	7	4

29.7) Please rank the following statement that the Nepalese commercial bank faces difficulties for the growth of retail banking; in your opinion.

1. Strongly agree      2. Agree      3. Don't agree  
4. Disagree      5. Strongly disagree

Statements	Rank				
	1	2	3	4	5
The legal procedure is tedious and lengthy	35	6	1	2	1
The staff are not highly competent	14	12	10	5	4
The bank faces difficulties from the competitive market.	15	10	8	8	4
The present rule and regulation is not Sufficient for retail banking growth	14	10	9	7	5
The bank has not sufficient customer Segment to match the requirements of Customers.	14	11	8	5	7

29.8) Are you agreeing with the following options that the Nepalese commercial bank faces difficulties for the growth of retail banking?

1. Strongly agree      2. Agree      3. Don't agree

4. Disagree

5. Strongly disagree

Option	Questionnaire	
	Bank staff	Customer
Strongly agree	5	6
Agree	7	8
Don't agree	3	2
Disagree	4	3
Strongly disagree	2	5
Total	21	24

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

1. Strongly agree      2. Agree      3. Don't agree  
 4. Disagree      5. Strongly disagree

Option	Questionnaire	
	Bank's staff	Customer
Strongly agree	8	12
Agree	10	8
Don't agree	2	4
Disagree	1	0
Strongly disagree	0	0
Total	21	24

.....  
 .....

Options	Rank			Mean	Ranking
	1	2	3		
Home Loan	37	5	3	1.24	1
Auto Loan	32	8	5	1.46	2
Personal Loan	9	28	8	2.11	3
Others (innovation product)	16	8	21	2.20	4

**Answer No.-29.4**

Here,

Calculation of mean

Mean = option X Rank / Total option

For Home loan

$$\text{Mean} = (37 \times 1 + 5 \times 2 + 3 \times 3) / 45$$

$$= (37 + 10 + 9) / 45$$

$$= 56/45$$

$$= 1.24$$

For Auto Loan

$$\text{Mean} = (32 + 16 + 15) / 45$$

$$= 66 / 45$$

$$= 1.46$$

For others

$$\text{Mean} = (9 + 56 + 34) / 45$$

$$= 99 / 45$$

$$= 2.20$$

For personal Loan

$$\text{Mean} = (16 + 16 + 63) / 45$$

$$= 95 / 45$$

$$= 2.11$$

**Answer No.-29.5**

Factor	Rank					Mean	Ranking
	1	2	3	4	5		
Low interest rate	24	10	4	3	4	1.95	1
Promotion and ad- campaign	11	15	7	5	7	2.60	2
Innovation product offered by bank	9	10	12	6	8	2.86	3
To maintain social status	5	8	16	4	12	3	4
For better life style	5	7	17	4	12	3.24	5
To make future secure	4	5	20	7	9	3.26	6

Here,

Mean = Factor X Rank / Total Factor

For Low interest rate

Mean = (24 + 20 + 12 + 12 + 20) / 45

= 88/45

= 1.95

Similarly,

Promotion and ad- campaign = 2.60

Innovation product offered by bank = 2.86

To maintain social status = 3.0

For better life style = 3.24

To make future secure = 3.26

**Answer No.-29.6**

Statements	Rank					Mean	Ranking
	1	2	3	4	5		
Reduce NPA	38	2	1	2	2	1.40	1
Increase Bank's Profit	28	8	2	4	3	1.80	2
Helps to technology innovation	10	11	9	10	5	2.40	3
Increase quality service and quick delivery	12	11	8	6	8	2.70	4
Helps to reduce cost	16	10	8	7	4	2.71	5

Here,

Mean = Statement X Rank / Total statement

For Reduce NPA

Mean = ( 38 + 4 +3 +8+10) /45

=63/45

=1.40

Similarly,

Increase Bank's Profit =1.80

Increase quality service and quick delivery =2.70

Helps to reduce cost = 2.71

Helps to technology innovation =2.40

**Answer No.-29.7**

Factor	Rank					Mean	Ranking
	1	2	3	4	5		
The legal process is tedious & lengthy	35	6	1	2	1	1.40	1
The staff are not highly competent	14	12	10	5	4	2.40	3
The bank faces difficulties from the competitive market	15	10	8	8	4	2.46	4
The bank has not sufficient customer segment to match the requirements of customer	14	10	9	7	5	2.53	2
The present rules and regulation is not sufficient for retail banking growth.	14	11	8	5	7	2.55	5

Similarly Above,

The legal process is tedious & lengthy=1.40

The bank has not sufficient customer segment to match the requirements of customer=2.53

The staff are not highly competent=2.40

The bank faces difficulties from the competitive market=2.46

The present rules and regulation is not sufficient for retail banking growth.=2.55



Here,

X = Bank's staff

Y = Customer

**Answer No 29.8**

X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
5	6	25	36	30
7	8	49	64	56
3	2	9	4	6
4	3	16	9	12
2	5	4	25	10
<b>Σ X = 21</b>	<b>Σ Y = 24</b>	<b>Σ X<sup>2</sup> = 103</b>	<b>Σ Y<sup>2</sup> = 138</b>	<b>Σ XY = 114</b>

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

$$= \frac{5 \times 114 - 21 \times 24}{\sqrt{5 \times 103 - (21)^2} \sqrt{5 \times 138 - (24)^2}}$$

$$= \frac{66}{\sqrt{515 - 144} \sqrt{690 - 576}}$$

$$= \frac{66}{8.60 \times 10.68}$$

$$= \frac{66}{91.85}$$

$$= 0.72$$

$$\text{Coefficient of Detemination}(r^2) = (0.72)^2 = 0.5184$$

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

$$= 0.6745 \times \frac{1-0.5184}{\sqrt{5}}$$

$$= 0.1452$$

**Answer No-29.9**

X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
8	12	64	144	96
10	8	100	64	80
2	4	4	16	8
1	0	1	0	0
0	0	0	0	0
$\Sigma X = 21$	$\Sigma Y = 24$	$\Sigma X^2 = 169$	$\Sigma Y^2 = 224$	$\Sigma XY = 184$

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

$$= \frac{5 \times 184 - 21 \times 24}{\sqrt{5 \times 169 - (21)^2} \sqrt{5 \times 224 - (24)^2}}$$

$$= \frac{416}{\sqrt{845-441}\sqrt{1120-576}}$$

$$= \frac{416}{20.10 \times 23.32}$$

$$= \frac{416}{468.73}$$

$$= 0.89$$

$$\text{Coefficient of Determination } (r^2) = (0.89)^2 = 0.7921$$

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

$$= 0.6745 \times \frac{1-0.7921}{\sqrt{5}}$$