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**BANKING INDUSTRY IN NEPAL: AN OVERVIEW**

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**ABSTRACT**

*The purpose of the paper is to highlight the current position of banking industry in Nepal. In current faster lifestyle, peoples may not do proper transitions without developing the proper bank network. Nepalese banking industry plays a crucial role in the economy due to its dominant position in the financial system. The banking industry in Nepal has significant changes over past decades as a result of liberalization, deregulation, advances in information technology and globalization. Present banking scenario provides a lot of opportunities as well as facing lot of challenges. The Banking Industry is facing a problem of liquidity, additional capital requirement and open financial market for the competition. So, in order to cope with this problem Nepal Rasta Bank (NRB) has directed to the Banking Institutions to go in the process of mergers and acquisitions.*

**KEYWORDS**

Nepalese banking industry, merger and acquisition.

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**INTRODUCTION**

**B**ank is the life blood of trade, commerce, industry and human life. Now-a-days, banking sector acts as the backbone of modern business and economic growth. Development of any country mainly depends upon the banking system. A bank is a financial institution, which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

Banks are important in mobilizing and allocating savings in an economy and can solve important moral hazard and adverse selection problems by monitoring and screening borrowers and depositors. Besides, banks are important in directing funds where they are most needed in an efficient manner and have direct implications on capital allocation, industrial expansion, and economic growth (Berger, Demircuc-Kunt, and Haubrich 2003; Levine 1997).

Nepalese banking industry has significant changes over past decades as a result of liberalization, deregulation, advances in information technology and globalization. The financial sector liberalization resulted into entry of new firms in the market; deregulation widened the scope of activities and delimited the banking activities; advancement in technology resulted into new ways and tools to perform banking activities; and globalization added more pressure on competitiveness of individual banks. Moreover, the banks, now-a-days, are entering into non-banking markets and other financial institutions are entering into the banking markets that have traditionally been served by the banks.

**OBJECTIVES**

The main objective of the study is explain the banking scenario in Nepal.

**METHODOLOGY**

The present research article is based on secondary data sources, which has been collected from banking books, annual reports of NRB, Internet (websites) and research papers etc.

**OVERVIEW OF BANKING INDUSTRY IN NEPAL**

The Nepalese banking industry started with the establishment of the Nepal Bank Limited on 1937, as the first commercial bank of Nepal with the joint ownership of the government and general public. This bank was given authority and responsibility of central bank of that time but within the change in time, of needed a separate central bank was seen. Nepal Rastra Bank was established as central bank in 1956 by an act of 1955. It was established with many objectives but mainly to stop maximum use of Indian currencies in Nepal and to increase the uses of Nepalese notes. Its other functions were to stop dual monetary system, to keep stability in exchange rate of Nepalese currencies. This is the bank of government and bank of all other banks. In the course of time, according to recommendation of the Nepal Rastra bank, another commercial bank Rastriya Baniya Bank was established in 1966 under Baniya Bank Act 1965. In the same way, under the agriculture development bank act 1967, the agricultural development bank was established in 1968. This bank was established with the objective of increasing the life standard of the people who are involved in agriculture. The development of banking system was not satisfactory up to 1983.

Nepalese financial system witnessed major changes in policies and regulations. With economic liberalization, of 1980s and focus on the private sector development, many foreign banks have established as joint venture Banks in Nepal and thus the Nepalese financial system has shown a tremendous growth of banking sector. The financial sector liberalization resulted into entry of many new banks in the domestic market. There are many financial institutions established under different category and it is in the process of increasing. A part from these financial institutions there are rural development banks established in Nepal. In recent year, Nepal Rastra Bank had opted merger, acquisition policy and financial institutions have merged and become one from two, and even one from three and many of financial institutions are in pipeline of merging. Now, Banks and financial institutions have expanded their services urban to rural area by modern technological banking system.

**BANKING REGULATORY ACTS**

Nepal Rastra Bank (NRB) has been given clear mandate to regulate and supervise banks and financial institutions in Nepal. In order to discharge its regulatory responsibilities, NRB issues directives and guidelines to the licensed BFIs. Likewise, NRB continuously conducts onsite inspections and offsite supervisions both on a regular and need-based ways to assess their risk profiles and their compliance with the existing laws, regulations and prudential norms. The following are the key documents, which guide the NRB's regulatory and supervision function:

- (1) Nepal Rastra Bank Act, 2002,
- (2) Bank and Financial Institutions Act, 2017
- (3) Company Act, 2017
- (4) Nepal Rastra Bank Inspection and Supervision By-laws, 2070
- (5) Capital Adequacy Framework, 2015
- (6) NRB Prompt Corrective Actions byelaws, 2012

(7) Assets (Money) Laundering Prevention Act, 2008

(8) Monetary Policy Announcements

(9) Several Guidelines issued by NRB

## TYPES OF BANKS IN NEPAL

According to function and nature of bank, in Nepal banks are classified in following types:-

### (1) CENTRAL BANK

Nepal Rastra Bank (NRB) regulates the national banking system and functions as the government's central bank. As a regulator, NRB controls foreign exchange; supervises, monitors, and governs operations of banking and non-banking financial institutions; determines interest rates for commercial loans and deposits; and also determines exchange rates of foreign currencies. As the government's bank, NRB maintains all government income and expenditure accounts, issues Nepali bills and treasury notes, as well as loans to the government, and determines monetary policy.

### (2) COMMERCIAL BANKS (CLASS A)

A Commercial bank provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations, large and middle-sized business only. At present, there are 28 Commercial Bank in Nepal.

### (3) DEVELOPMENT BANKS (CLASS B)

The bank which is established for the development of different sectors like industrial, agricultural, infrastructural etc. by imitating the modern system and methodology through financial, technical and administrative assistance is known as development bank. Development banks in Nepal are playing vital roles for the development of economy status of Nepal. There are 36 development banks in Nepal.

### (4) FINANCE COMPANIES (CLASS C)

Finance Companies are licensed by Nepal Rastra Bank in 'Class C'. Finance Companies in Nepal are also playing vital roles for the development of economy status of Nepal. Nepal has many nationalized and private finance companies. At Present, there are 25 Finance companies in Nepal.

### (5) MICRO FINANCE INSTITUTIONS (CLASS D)

Many people (25 percent) of Nepal are under poverty line. Most of the poor people lives in rural areas and have little opportunity. Micro finance (Micro Credit Development Bank) could help poor people who do not have any collateral, but willingness to work and desire to do some business activities from who will acquire employment as well as income. At present, there are 63 Micro finance institution in Nepal.

## MERGER AND ACQUISITION IN NEPALESE BANKING INDUSTRY

Ojha, Sushil and John Walsh (2017) the Nepalese Banking Industry is facing a problem of liquidity, additional capital requirement as per NRB regulations and open financial market for the competition. So, in order to cope with this problem Nepal Rasta Bank (NRB) has directed the Banking Institutions to go in the process of mergers and acquisitions. Besides the number of Banking and Financial institutions in Nepal has increased previously but had created the low financial stability. Thus in order to attempt the promotion of financial stability NRB is effectively implementing the Merger and Acquisition of Banks and financial institutions.

Devos, Kadapakam & Krishnamurthy (2008) studied M&A as value creation, efficiency improvements as explanations for synergies and produced evidence that suggests mergers generate gains by improving resource allocation rather than by reducing tax payments of increasing the market power of the combined firm.

Shanmugam & Nair (2004) identified factors in their study on mergers and acquisitions of banks in Malaysia like globalization, liberalization and information technology developments have contributed to the need for a more competitive, resilient and robust financial systems.

Goyal and Joshi (2011) that small and local banks face difficulty in bearing the impact of global economy. Therefore, they need support and it is one of the reasons for merger.

In recent years, merger and Acquisition of financial institutions in Nepal has been promoted in increasing trend. Merger has helped most of the financial institutions to increase the capital as well as help them to become more competitive with maintenance of good corporate governance. However the most important consequences in Nepal after merger is the improvement in financial ratios which also proves a good maintenance of adequate capital in order to protect the consumer right and minimize the risk likely to be under critical scenario. Mergers and acquisitions have been the burning issue in the banking sector. Complying with the global scenario, Nepalese banks and financial institutions are currently going through the situation of merger and acquisition.

## PRESENT SCENARIO

Present banking scenario provides a lot of opportunities as well as facing lot of challenges. Nepal is being fundamentally strong supported by concrete economic policies, decisions and implementations by the Nepalese Government. Today in Nepal, the service sector is contributing the Nepalese GDP and the banking is most popular service sector in Nepal. The significant role of banking industry is essential to speed up the social economic development. To improve major areas of banking sector, Government of Nepal, NRB and Ministry of finance have made several notable efforts. Many of leading banks operating in market have made use of the changed rules and regulations such as CRR, interest rate, special offers to the customers such as to open account in Zero balance. In addition to this, now-a-days banks are entered in non-banking products such as insurance in which area there are tremendous opportunities.

## CHALLENGES FACED BY THE BANKING INDUSTRY

### CUSTOMER SATISFACTION

Today, in banking sector customers are more value oriented in their services because they have alternative choices in it. So that each and every bank have to take care about fulfilling customers satisfaction.

### TO PROVIDE SEVERAL PERSONNEL SERVICES

Banks must be able to provide complete personal service to the customers who come with expectations. Today, it is demanded that banks are to provide several services for which they have to expand their service, social banking with financial possibilities, computerization and innovative mechanization, better customer services, internal supervision and control, adequate profitability, strong organization culture etc.

### COMPETITION

Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels and new market trends. Banks are restricting their administrative folio by converting manpower into machine power. Banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized manpower is to be utilized and result oriented targeted staff will be appointed.

### GLOBAL BANKING

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. The foreign banks operating in Nepal, becomes a major challenge for nationalized and private sector banks. These banks are large in size, technically advanced and having presence in global market

### LIQUIDITY CRISIS

Nepalese banking industry now facing liquidity crisis. Banking sector have invested large amount in unproductive sector. Short term depository, interest rate competition. The current crisis in Nepalese banking and financial industries has resulted due to the skepticism of large public money holders in banking and financial system.

**OPPORTUNITIES TO BANKING INDUSTRY****RURAL AREA CUSTOMERS**

A large no. of Nepalese banks targeted to urban areas, they have no interested to reach in rural area. Now, Nepal is going to political stable and infrastructure development. It is opportunity for the banks to enter in rural area and provide services to rural customers.

**GOOD CUSTOMER SERVICES**

Good customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a customer faith in the bank. While increasing competition, customer services has become the backbone for judging the performance of banks.

**INTERNET BANKING**

Commercial banks in Nepal are providing the service of utility payments, fund transfers within and between selected banks and the generation of account statements as internet banking services. Currently, all the Commercial banks are offering Internet Banking services to their customers.

**OFFERING VARIOUS CHANNELS**

Banks can offer so many channels to access their banking and other services such as ATM, Local branches, Mobile banking, etc. to increase the banking business.

**SCOPE OF INVESTMENT**

Bhandari, Bishnu (2017) Nepal has ample opportunities for investments. Hydroelectricity, tourism and service are three prominent sectors the investors are willing to make their investments in recent times. Not only these sectors, other categories like mega infrastructure developmental projects specially, construction of bridges, dams, trolleys, roads, tunnel highway, railways, monorails, airport, link road; manufacturing projects like cement, steel and other production units; extraction and exploration of minerals, mines and natural resources, etc. are priority sector investments for investors.

**CONCLUSION**

With economic liberalization banking industry of Nepal tremendous growth and focus on the private sector development, many foreign banks have established as joint venture Banks in Nepal. Banks and financial institutions occupies more than 60 percent in Nepalese economy but the development of banking sector in Nepal is not said as satisfactory because these financial sector have target cities and populated areas only not reach in rural areas. The present banking scenario provides a lot of opportunities as well as facing lot of challenges. The banking sector of Nepal facing political interfere, liquidity crisis, unfavorable policies of the regulating body, sluggish economy and various other macro and micro economic factors.

Presently, the Nepalese Banking Sector is facing a huge problem and is in critical juncture. So, in order to cope with this problem Nepal Rasta Bank (NRB) has directed the Banking Institutions to go in the process of mergers and acquisitions. NRB has provided several benefits to the merging institutions. Responding to the benefits presented by NRB, the banks and the financial institutions of the country are opting in the process of merger. It is essential by the regulatory/supervisory system and improving the implementation of new standards on quality and quantity of capital, liquidity and risk management. Opportunities can be created for the banking such as branch outreach to rural areas, developing hydropower and tourism etc.

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