

Comparative Study on Deposit Mobilization of Nepal Bank Limited and Sanima Bank Limited

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Abstract

This study focuses on and compared the deposit mobilization condition of Nepal Bank Limited (NBL) and Sanima Bank Limited (SBL). Taking sample the two banks as a sample, this study tries to find the effects of profitability and loan and advance on deposit mobilization from the secondary data 2011 to 2020. The study's findings indicate that the return on assets and earnings per share have a significant and positive impact on the profitability performance of sample banks.

Keywords: *Deposit mobilization, Loan and advance, Nepal Bank Limited, Profitability, Sanima Bank Limited.*

1. Introduction

The article describes the deposit mobilization of two commercial banks especially focusing on Nepal Bank Limited and Sanima Bank Limited. The reason for choosing two banks as the former is the oldest government commercial bank and the latter is the youngest private commercial bank in the Nepalese Banking Industries. This study mainly focused on the deposit mobilization condition of the sample banks and tried to find the effects of profitability and loan and advance on deposit mobilization taking ‘to identify, examine and analyze the effect of profitability and loan and advance on total deposit mobilization of Nepal Bank Limited and Sanima Bank Limited’ as the main objective.

Deposit Mobilization is the collection of cash or funds by a financial Institution from the public through its current, saving, fixed, recurring accounts, and other specialization. In the banking sector deposit mobilization is a strategy planned to encourage the customer to deposit more cash in the bank and this amount, in turn, will be used by the bank to disburse more loans and generate additional revenue. By mobilizing deposits banks to ensure continued service to members' needs and build financial strength. Hence deposit mobilization might be taken as vital for economic development and is key for financial sustainability (Ayayi & Sene, 2010) as it can contribute to self-sustainability by providing the microfinance institution with the lower-cost funds.

The stability of the banking and financial system, the entire economy is linked like a chain and if one internode is damaged it would affect all other industries as well. In order to ensure a congenial atmosphere banks should be able to raise enough amount of deposits.

Therefore, appropriate, timely, and well-planned policy instruments and programs should be implemented to increase deposit mobilization.

Acceptance of deposits and mobilization productive sector is the crucial function of Commercial Banks. As such, deposit mobilization is one of the basic innovations in Nepalese Banking activity. This study will include two different commercial banks in Nepal i.e. Nepal bank limited and Sanima Bank limited.

These two particular banks are chosen as Nepal Bank Limited is the first commercial bank of Nepal and is developed under the principle of the joint between government and the general public while Sanima Bank Limited is the youngest commercial bank of Nepal owned by Non-Resident Nepalese (NRNs) Businessman.

Banks in Nepal deposits through financial activities and investment, primarily focusing on commercial banks. The Study investigates the deposit mobilization trends of Nepal Bank Limited and Sanima Bank Limited with a focus on profitability and loan impacts. The primary objectives are to assess deposit mobilization and analyze how profitability and loans influence total deposit mobilization for these mobilization for these banks (Jacob and Innocent, 2019)

2. Literature Review

There are several theories advanced by different scholars that can be applied to explain the effect of deposit mobilization strategies on the performance of deposit. This study is hinged on the two theories; Bank led theory and Diffusion of Innovation theory.

Bank Led Theory: Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees.

The bank led theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services but distribute them through a retail agents.

This can be a way of mobilizing deposits commercial banks use as a new model to increase financial inclusion and facilitate the transaction especially in the areas where the bank is not present. This model facilitates the banks to raise its deposits and lead to financial performance.

Diffusion of Innovations Theory: Diffusion of innovations is a theory that seeks to explain how, why, and at what rate new ideas and technology spread through cultures. Rogers (2014), argues that diffusion is the process by which an innovation is communicated through certain channels over time among the participants in a social system.

This theory is related to the study as it presents the process of newness and implementation of innovation. Deposits mobilization is a new model of approaching savers through marketing and financial inclusion and come up with new techniques which were not been used by traditional banking, it is perceived and communicated through channels and the social system facilitates its adoption. In mobilization of deposits new innovation has to be applied and make convincing the savers to make deposits.

Pokharel (2015) studied on deposit mobilization of commercial banks of Nepal, with reference to NABIL and Himalayan Bank Limited. The findings of the studied were that the liquidity position of NABIL was very strong while Himalayan Bank Limited have strong capacity to meet the short-term obligations.

Kadariya (2017) studied on deposit mobilization of commercial banking in Nepal Researcher had taken two samples of Banks Viz; NABIL Bank Limited and Nepal Bank Limited. The major finding of the study was that NABIL has more consistency and uniformity in case of profitability. Nepal Bank Limited has slightly higher spread rate than NABIL. Loan and advances of both banks are in increasing trend.

KC (2018) analyzed deposit mobilization of Agriculture Development Bank Limited. The studied found that the net profit to total loan and advances ratio for the bank is satisfactory i.e. to generate the profit.

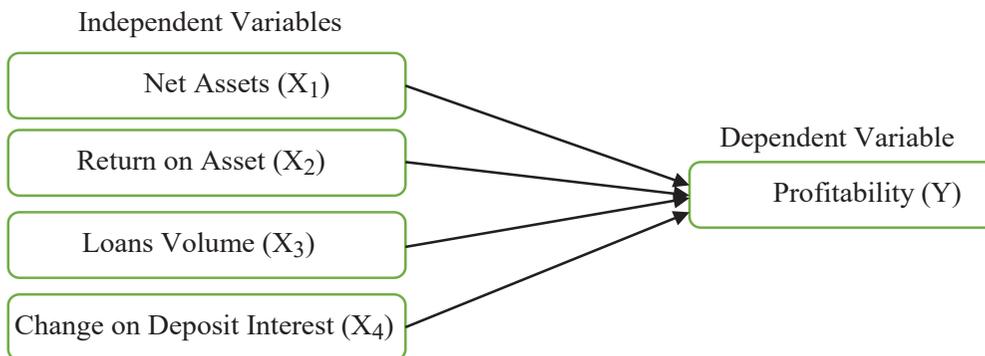
Orocket al (2018) analyzed on inflation and deposit mobilization in deposit money banks the Nigerian Perspective. Authors concluded that all variables used in the construct were stationary at 1st difference, and at least one co-integrating equations exited in the model. Again, it was concluded empirically, that inflation has negative impact on the deposit mobilization of the Nigerian banks.

Kassu and Menen (2020) Deposits are the primary source of funds for a bank, which facilitates the uses of funds of loans and investments. The results explained that Banks Liquidity has a positive insignificant effect, credit risk and exchange rate have positive and statistically significant and inflation has significant negative influences on commercial bank deposit mobilization

Conceptual Framework: Guided by the objective and research questions and based on the literature reviews researcher constructed a diagrammatic representation of the study variable as.

Performance as outcomes, end results and achievements (negative or positive) arising out of organizational activities. It is essential to measure strategic practices in terms of outcomes. These outcomes vary along a continuum of categories such as: financial measures such as return on asset, return on equity, turnover, and profitability to name few.

Variables Relationship



3. Research Methodology

In this study, data are collected from the secondary sources. Collected data are first presented systematically in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. The different calculated results obtained through financial, accounting, and statistical tools are tabulated under different headings. Figures and Tables are presented to analyze and interpret the finding of the study. The study employed both descriptive and analytical statistics to analyze the collected data; this process also involved manual working and computer program SPSS 25.0.

4. Results and Analysis

Figure 1 The main aim to choose this research is to analyze and compare the deposit mobilization of Nepal Bank Limited and Sanima Bank Limited. Basically Mean, Standard Deviation, Coefficient of Variance and Multiple linear regression model have been applied to analyze the data.

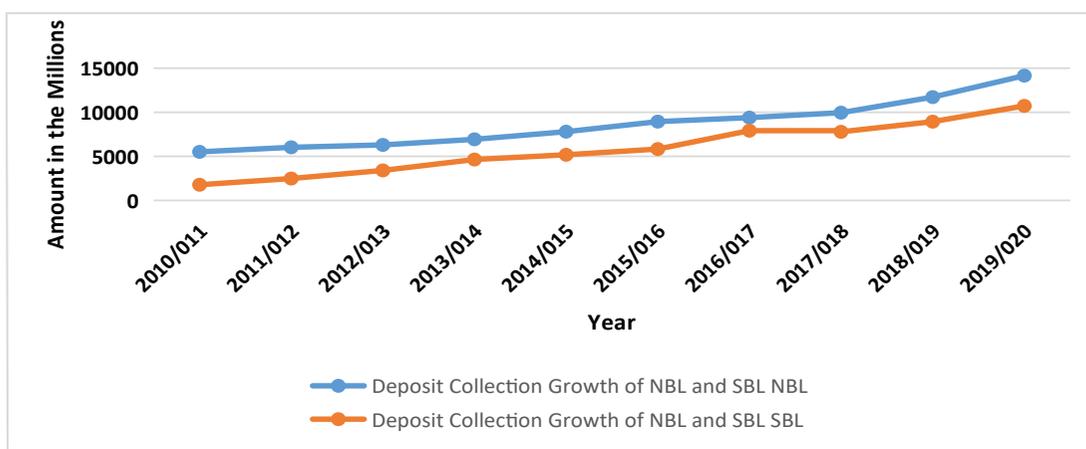


Figure 1: Deposit Collection of NBL and SBL

Source: Annual report of NBL and SBL from 2010 to 2020.

From the analysis of data, revealed that the deposit collection of both NBL and SBL are in increasing trend. Comparing two banks, it can be concluded that NBL is more successful than SBL in deposit collection, since the average deposit collection of NBL (Rs.86735 millions) is higher than that of SBL (Rs.58678 millions). Also, the deposit collection trend of NBL is more uniform than that of SBL, since the C.V. on deposit collection of NBL (31.68%) is lower than that of SBL (41.87%).

Figure 2 shows the result of financial surplus to assets ratio or return on assets of Nepal Bank Limited and Sanima Bank Limited. From the ten years analysis i.e., fiscal year 2010/11 to 2019/20 return on assets is greater for SBL which is 1.47% than NBL which is 1.46% among the two sample banks.

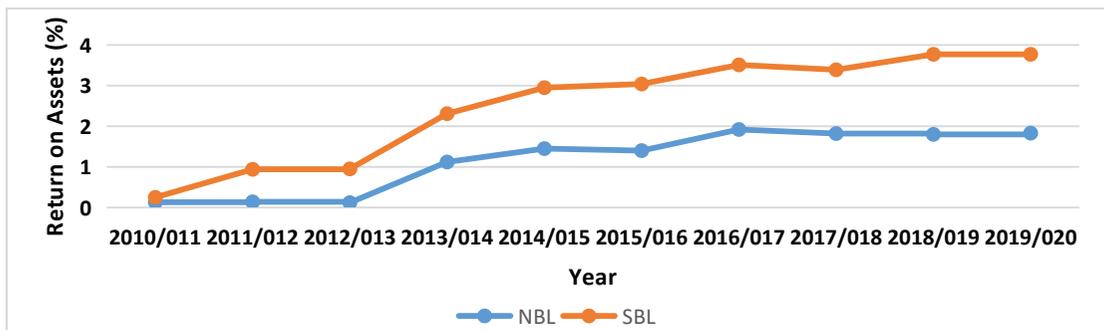


Figure 2: Return on Assets of NBL and SBL

Source: Annual report of NBL and SBL from 2010 to 2020.

From the data, shows that SBL has riskier that is higher CV 25.08% than NBL i.e., 24.04%. From this result it can be concluded that NBL is more inconsistent than SBL in terms of return on assets because the average ROA during the ten years is higher for SBL with lower standard deviation which denote consistency.

Figure 3, shows that EPS of NBL and SBL, of last ten years period. Where, the EPS is better of NBL than SBL. Similarly, the EPS simply shows the profitability of the firm on a per share basis. Hence, The EPS value indicates the profitability of the common shareholders' investment.

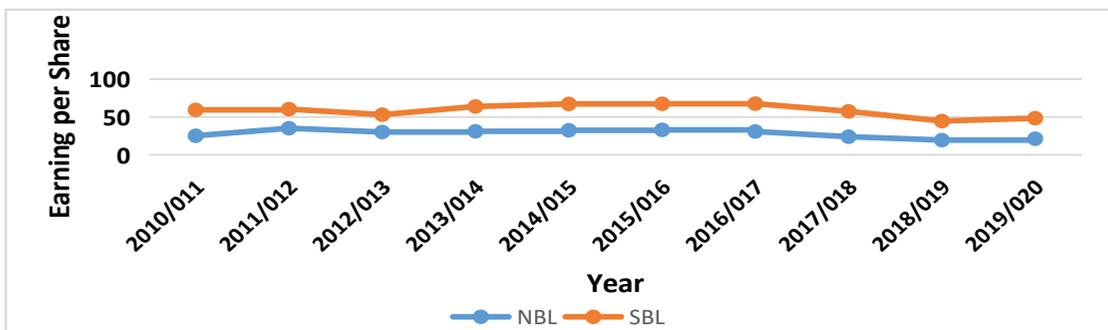


Figure 3: Earning Per Share

Source: Annual report of NBL and SBL from 2010 to 2020.

Figure 4 depicts the mobilization of total deposit in loan and advances. The average total loan and advance to total deposits ratio of NBL are higher than SBL. In average comparison, NBL Bank has utilized its total deposits better in consecutive years. Likewise, the mean ratio of NBL and SBL are 67.628% and 64.44% respectively.

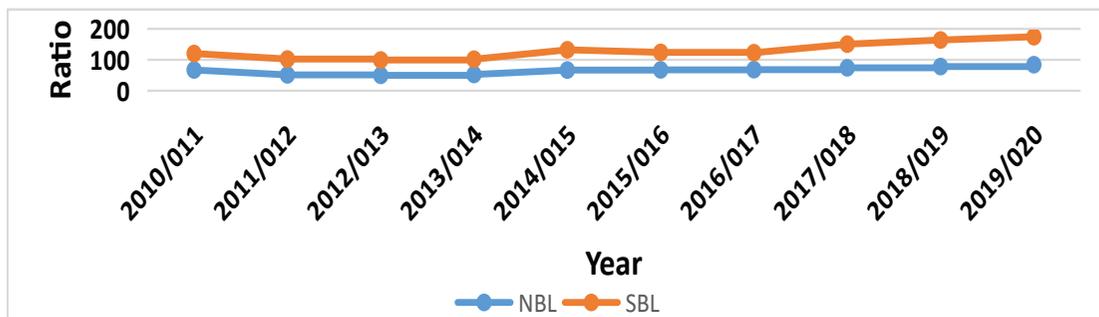


Figure 4 : Loan and Advance to Total Deposit Ratio

Source: Annual report of NBL and SBL from 2010 to 2020.

The data shows coefficient variation analysis, SBL is more consistent with lower CV i.e., 15.15% than NBL i.e., 16.45%. Here private sector bank i.e. SBL have a consistent performance than government bank i.e., NBL. NBL has been strong to mobilize its total deposit as loan and advances. Higher loan and advance to total deposit ratio show higher risk and higher turnover. So, NBL has invested their deposit more in loan and advance to earn higher profit.

Figure 5 shows that the commercial banks must mobilize its deposit fund by investing in different securities issued by government and other financial, non-financial sectors. This ratio measures the extent to which the banks are capable to mobilize their deposits on investment in various securities. In these scenarios, in comparison with mean value, NBL has higher than SBL. Similarly NBL debt have seen approximately equal percent and slightly lower in ten years period but NBL seen lower in ten years period. The risky point of views, NBL bank seen more risky for invest than other the SBL seen more uniforms on debt to compare NBL bank in ten years period. It is clear that the investment policy of SBL is in better position in comparisons to NBL bank.

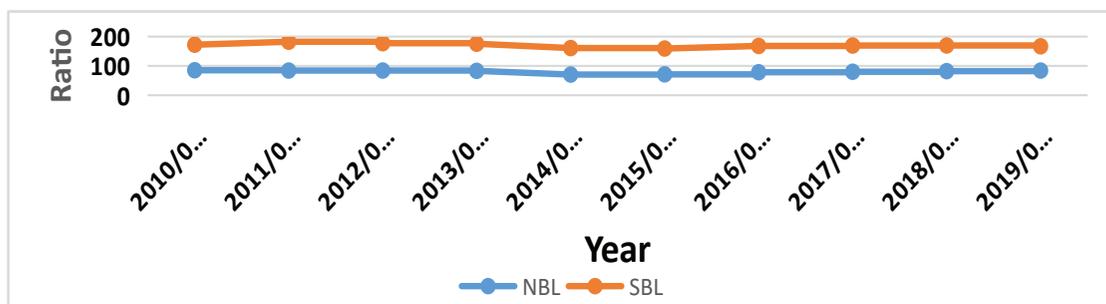


Figure 5: Total Debt to Total Assets Ratio

Source: Annual report of NBL and SBL from 2010 to 2020.

Datea shows that the descriptive statistics depicts that, the ROA has obtained mean ratio 1.17300% over the study period. This variable has minimum value of 1.78% and maximum one at 2.17% and it has ranged in 0.39%. However, in term of standard deviation is 0.759840 percent during the ten years period. On the other hand, EPS has obtained mean 28.26600% where it has minimum value get 31.58%, maximum value at 61.82% and it has ranged in 30.24% as well as in terms of S.D. of EPS registered 5.358904% percent respectively. The variable of Loan and Advance to Total Deposit ratio has obtained mean 80.291% with minimum value of 61.68% and maximum value at 83.95%, ranged in 22.27% and in terms of S.D. registered 5.4100% percent over the study period.

Annex 7 shows that the relationships among the study variables depicted in the model have tested using correlation with ROA and EPS separately, which is presented in the table. The results show that ROA has negatively correlated with EPS (0.402), because sample banks heavy accumulated profit and optimal capital prescribed. The corresponding P value is 0.249; it is more than significance level i.e.0.05. Statistically, there is no significance relationship between ROA and EPS respectively.

Moreover, the relationship of LA/TD with ROA is found 0.430 which is negatively correlated with ROA. The negative coefficient estimates of the correlation implied that there are indirect relationship of loan and advance to total deposit ratio. Similarly, LA/TD has statistically significance relationship with ROA and Size of banks has positive relationship with ROA and statistically has significance relationship with ROA. Finally, ROA has negatively correlated (0.670) with total debt to total assets. Similarly, the corresponding P value is 0.034; it is more than significance level i.e. 0.05. Statistically, there is no significance relationship between ROA and TD/TA ratio respectively.

Analysis through Multiple Linear Regression Model : In this research multiple regression shows the relationship between dependent variable which is deposit mobilization and its independent variables which are profitability, Net assets, ROA, Loan volume and change in deposit interest. This research is assigned for analysis of these variables. Thus, the multiple regression equation of Y on X₁, X₂, X₃, X₄ & X₅ is an equation for estimating a dependent variable Y, from five independent variables X₁, X₂, X₃, X₄ & X₅.

The multiple linear regression equation used in this study is given by:

$$Y = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + et.$$

Where,

Y= Deposit Mobilization

X₁= Profitability

X₂=Net Assets

X₃= Return on asset

X₄ = Loan Volume

X₅ = Change of deposits Interests

et= error term

The regression model revealed that return on assets has positive impact on the regression coefficient of Earning per share (EPS), the regression coefficient of Fixed Assets to Total Assets ratio (FA/TA), the coefficient of loan and advance to total deposit ratio (LA/TD) but negative impact on Number of branches and Total Debt to total assets ratio. There is positive impact of EPS on fixed assets to total assets ratio but negative impact on loan and advance to total deposit ratio (LA/TD), Number of banks branches and total debt to total assets of sample banks respectively. Similarly, the selected sample banks seen stable and sample banks are adequately capitalized and profitable and remained in a sound position. The findings of this study indicate that the return on assets and Earning per share have significant and positive impact on profitability performance of sample banks. This is evidenced by the significant result on tangibility and liquidity. In the previous study has published their most of the results were significant. But in this research some results were insignificant. The main causes are our liquidity situation, covid-19 influence, instability on economic sector etc.

5. Conclusion

This research has study the deposit mobilization of two commercial bank i.e. Nepal Bank Limited and Sanima Bank Limited, which explains that net assets, return on asset, loan volume and change in deposit interest have relationship with profitability of Banks. From the liquidity management perspective selected banks could manage liquidity as per NRB directive. Selected banks should lunch very aggressive marketing campaign to attract more deposit and mobilize or utilize this fund in very productive sector. Hire some competitive human resource and face the challenge of competition. It has to improve the brand value in the heart of people. Some other points to improve the performance of commercial banks: Increase; proper service, deposit, quality of assets and invest in government securities as well as deprived and priority sectors. Enhance Liberal lending policy and sound credit allocation policy as well as innovative approach of marketing. Focus on rural banking and national development by branch expansion in appropriate location. Invest in human resource development to be the global competitor and focus on employee motivation, maintenance and utilization. Improve in ground level service efficiency and working environment.

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