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Review of Malaysian Retail Banking Market: An Industrial Organizational Perspective

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ABSTRACT

The attempt of this paper is to analyze the Malaysian retail banking market within structure-conduct-performance paradigm framework which roots from the industrial organizational field. The Malaysian retail banking market practices dual banking system which consists of conventional and Islamic banking firms. Therefore, the analysis in this paper will focus on the structure, conduct and performance of both banking system descriptively. The structure of the retail banking market will also focused on several aspects such as market size and distribution, market competitiveness, market delineation and barriers to entry. While, marketing expenses, distribution of the branches and the quality of services will be analyzed to evaluate the banking firms conduct in the market. Meanwhile, the performance of the banking firms will be analyzed from two perspectives namely, ratio analysis and welfare perspectives. Overall, the study shows that both domestic and foreign banking firms play a significant role in the Malaysian retail banking market.

Keywords: Banking; Industrial Organization; Structure-conduct-performance;

INTRODUCTION

According to Fama (1985), both capital market and banking market establish strong relationships between borrowers and lenders but banks have comparative advantage compare to capital market. This is due to the superior capability of banks that can provide loans or debt to the borrowers with inside information. For instance, the bank will gather the information of the customers such as their income and expenditure pattern while process their loan application. Furthermore, the theory of asymmetric information, Diamond (1984) show that special role of bank is to minimize the agency cost between borrowers and lenders by monitoring the borrowers at low cost. On the other hand, the special function of banks is to transform illiquid assets into liquid liabilities, providing insurance against liquidity risk with private information to agents. Hence, banks arise because of incomplete and asymmetric information in the financial markets.

Banks play very important and active role in the economic development of a country via various channel of distribution. For instance, banks promote capital formation, investment in new enterprises, promote the development of trade and industry, strong influence on the country's economy and help to promote export. Therefore, an effective and efficient banking system will bring about rapid growth in the various sectors of the economy. In Malaysia both Islamic and conventional banks contribute towards the expansion in the banking system and hence, to the economic growth of the country. Banks become a major source of finance in the process of development and also considered as a 'life-line' of modern trade and commerce. For instance, total loan provided by retail banking system in Malaysia is about RM65,503.8 million in 2010. The total loan disbursed by the banks is used for various economic purposes in order to stimulate consumption and investment activities which will continually enhance economy growth. Base on these reasons, banking industry has been one of the selected industries that may help Malaysia to achieve the status of high income country. According to the Central Bank of Malaysia report the banking system constitutes about 50 percent of the financial system's assets. The development and the better performance of financial system tend to be the strong reason of the growth in Malaysia service sector by 1.6 percent in the second quarter of 2009.

Henceforth, the attempt of this paper is to discuss about the retail banking industry of Malaysia under industrial organization perspective. We will use the traditional structure-conduct-performance analysis to elaborate the current situation regarding the structure, conduct and performance of Malaysian retail banking system which consists of conventional and Islamic banking market. The discussion will focus on SCP paradigm framework in the context of banking market. Thus, the paper is organized as follows: Section 2 describes previous studies that have been done by using the SCP paradigm framework. Section 3 describes the theoretical framework and the methodology that have been used in this study. Then, The SCP analysis of Malaysian retail banking industry will be discussed in Section 4. Finally, the conclusion of the study will be discussed in Section 5.

LITERATURE REVIEW

The study of structure-conduct-performance (SCP) relationship has been done widely in many industrial organizational studies in various fields such as manufacturing industry, banking industry, transportation industry, telecommunication industry and agriculture based industry. In this section, the discussion about the SCP paradigm that have been conducted in various industries will be discussed to highlight the importance of the study on structure, conduct and performance in the economy especially in enhancing the industrial development of a country.

Bisant et. al (2008) have conducted an investigation of the Structure-Conduct-Performance (SCP) paradigm of a broiler chicken industry in Peninsular Malaysia. According to them, there has been a major structural change in the form of vertical integration and increasing market concentration at the wholesale level of the industry. The SCP paradigm analysis has been done by using the primary data collected by Federal Agricultural Marketing (FAMA) in 2003. The questionnaire has been distributed to 260 wholesalers throughout Peninsular Malaysia who purchased broilers at the farm level either directly or through collectors.

The findings from this study show that the broiler chicken industry is an oligopolistic market which consists of a few larger buyers that exercise their market power especially in the pricing mechanism. Most of these wholesalers concentrated in four states namely; Kelantan, Pahang, Terengganu and Johor, which account 62 percent of the total number of wholesalers. The measure of market competitiveness, for instance, the concentration ratio of the four largest (CR_4) wholesalers is high in three states; Penang, Malacca and Negeri Sembilan. This is due to the small number of wholesalers exist in these states. While the measurement for CR_8 shows all the states except Terengganu and Perak have the market share that exceeds 80 percent. Meanwhile, the HHI measurement shows the eight of the twelve regional centers have n HHI greater than 1800 which indicates that the markets are highly concentrated.

Fatimah (1982) has conducted a study to evaluate the structure, conduct and performance in paddy and rice markets. This study also was conducted to determine the impact of government's marketing program on market structure, conduct and performance. The data for this study is collected via the survey conducted by the author on farmers, millers and wholesalers in paddy and rice markets in Krian. The collected data has been analyzed descriptively to evaluate the market structure, conduct and performance in the particular market. Fatimah has used two indicators to evaluate the market structure of paddy and rice markets namely, market concentration and barriers to entry.

The study has shown that the market is fairly competitive at market farm level but becoming less competitive at the higher level especially at the miller and wholesaler levels. However, the government intervention in the market such as by providing licenses to the millers and the introduction of the new cash subsidy has somehow reduced the concentration among the millers and wholesalers in the market. These interventions have also changed the farmer's actions in the market, that is by selling their paddy only to the licensed miller. Such enforcement of licensesing policy is required to reduce malpractices in the market.

Meanwhile, Neuberger et. al. (2008) has investigated the existence of high concentration of banking relationships in Switzerland. Their interest is to test whether the high concentration in banking relationship is determined by the structure of Swiss firms and their demand for financial services or by the structure of Swiss banking market. The data for this study has been collected from the surveys of Swiss SME's in 1996 and 2002 that has been conducted by the market research institution DemoSCOPE on behalf of the Association of Swiss Cantonal Bank. The data was collected through the phone interviews with about 1,700 SME's. The SME's have been divided into three categories: "micro firms" (50% of the sample) with 1 to 9 employees, "small firms" (20% of the sample) with 10 to 49 employees and "medium-sized firms" (25% of the sample) with 50 to 249 employees.

The findings of the study show that SME loans are highly concentrated among the big and cantonal banks. Neuberger found that, in 1996, 52% of the bank relationships were maintained with a big bank, 28% with cantonal bank, 3% with a mutual bank, 10% with a regional or saving bank and 3% with other bank While in 2002, 45% of the bank relationships were maintained with a big bank, 30% with cantonal bank, 11% with a mutual bank, 9% with a regional or saving bank and 5% with other bank. The decline of the market shares by big bank is due to the merger activity in 1998. Meanwhile, 'branch density' has been used as a measure of competition in service quality. The average branch density declined from 552 in 1996 to 397 in 2002. It shows the reduction in branch network in Switzerland have been mainly driven by big banks, while canton banks and regional banks facing the loss of market shares. Concentration in the Swiss banking market is measured using the Herfindhal-Hirshman index (HHI). The result of HHI shows that the HHI for overall Swiss banking market has increased which indicate a high level of concentration.

Further, Mesher and Zajac (1997) have done a paper which presents the political analysis of national telecommunication policy in Malaysia and Singapore using the structure-conduct-performance paradigm approach. According to them, national political forces had a big effect on the evolution of telecommunications due to the ownership of telecommunication organization which have been either government owned or regulated. The attempt of the study is to compare the political economy of telecommunications in Malaysia and Singapore by using 'stakeholder' analysis as a principal methodological tool. The analysis in this paper focused on the four sectors of the telecom market in Malaysia and Singapore, namely on cellular telephone, paging, electronic data interchange (EDI) and internet. This study found that the market structure of Malaysian telecommunication sector is considered as highly competitive that characterized by a large number of private-owned firms. On the contrary, in Singapore, the corresponding market structure are more monolithic that characterized by one or a few government owned or 'government-linked' firms.

METHODOLOGY

Theoretical framework

In general, SCP paradigm analyze the exercise of market power by private organization and its' influenced towards the public. Thus, in the banking market, we can see how the structure and conduct of bank will influence the performance of the banks and the welfare of the society or its customers. Here the general SCP approach will be used in explaining the characteristics of banking market in Malaysia. In doing so, the SCP paradigm has been modified accordingly to the banking industry as depicted in Figure 1 (see Appendix).

Like other markets, the analysis of SCP framework in banking market also relies on the basic conditions of the market and the public policy, (as shown in Figure 1). In order to analyze the banking market, it is necessary to integrate market imperfections such as uncertainty, asymmetric information and transaction costs into the basic condition. The heavy arrows in Figure 1 show the primary relationships in SCP paradigm where basic market condition determines market structure; and hence its market structure determines conduct; and conduct determines performance. In addition, government policies have direct impact on structure, conduct and performance. Meanwhile, the thin arrows depict the feedback effects of conduct on structure and of performance on conduct and structure. The following sections will provide the brief description of statistical analyses to measure the selected dimensions of the SCP paradigm in banking market.

Market structure

Market structure refers to the characteristic of the organization in the market that will give an important impact towards the competition in a particular market, such as the number of firms, the size of firms, products type and barriers to entry. According to Bisant (2008), the major dimensions of a market structure are market competition, barriers to entry and product differentiation. Two measures that are normally used to illustrate these dimensions are concentration ratio (CR) and Herfindhal-Hirschman Indices (HHI). The method of calculation of these measures is given below.

(a) Market Concentration Ratio

Market concentration ratio (CR) measures the proportion of the industry output accounted by the *n* largest firm in the industry. The CR can be expressed as:

$$CR_n = X_1 + X_2 + X_3 + \cdots \ldots + X_n \quad (1)$$

where X_i = is the market share of the *i*th firm. Usually, the ratio is related to the 4, 8, 20 or 50 largest companies (Bisant, 2008). For instance with n =5, we have the five firm concentration ratio. Hence, in the analysis of banking market, the concentration ratio for the total assets, total equity, total loans and total deposits will be calculated.

(b) herfindhal-hirshman index (HHI)

According to Clarke (1985), this index was proposed firstly by Hirschman and later by Herfindhal. The HHI accounts the sum of squared market shares of all the firms in the industry. This index can be expressed as:

$$HHI = \sum_i^n X_i^2 \quad (2)$$

The value of HHI will change when there are changes in market shares among the largest firms. The maximum value of HHI is 10,000. The HHI will decrease as the number of firm increases. Department of Justice has provides the benchmark in interpreting the HHI. The HHI that less of 1000 represents a relatively unconcentrated market, the HHI between 1000 and 1800 represents a moderately concentrated market and HHI greater than 1800 are considered as highly concentrated market. Hence, in the analysis of banking market, the HHI for the total assets, total equity, total loans and total deposits will be calculated.

(c) market delineation

Market delineation also will be used in analyzing the market structure of banking market. One of the elements in market delineation is the geographic extent of the market. The relevant market area should depend on the transportation and information costs. Economic theory assumed that customer will choose the product that near to them to reduce the transportation cost. Therefore, the distribution of the bank branches in every state in Malaysia is important to the customers that need the banking services in certain geographical area. Based on the location theory, we assumed that banking firm with more branches is more preferable. Furthermore, the analysis of market delineation also will be focused on the differentiated qualities that offered by the bank such as branch network, automatic teller machines and telebanking.

(d) Barriers to entry

The regulation in banking industry creates barriers to entry to the banking market. For instance, market entry of banks is controlled by the imposition of licensing condition and the exit of bank may be impeded by acquisition or bailout. As shown in Figure 1, public policies have direct effect on structure, conduct and performance. Public policy can be grouped into protective and prudential regulations and competition policy. Hence, the regulation in banking industry also will be use to describe the environment of banking market especially in terms of exit and entry, ownership and control of banking firms in Malaysia.

Market conduct

Market conduct can be defined as the patterns of behavior by enterprises in an effort to adjust in the markets in which they operate. Therefore, conduct refers to the behavior or actions (strategies) that taken by the firm in the market such as pricing strategies, promotion strategies, collusive behavior mergers and so forth. Therefore, several features of the conduct of banking firms in Malaysia also will be discussed such as marketing expenses for publicity and advertising and quality of services to evaluate the behavior of the banking firms in order to compete each other.

Market performance

Market performance can be defined as the outcome or comprises of end results of firms in the market due to the market structure and market conduct. The analysis of performance not only concern about the firm's profit but also emphasis on economic welfare. In explaining the welfare the discussion will be focused on two elements: whether the production of firms enhance economic welfare and satisfy the

consumer's requirement. As mentioned by Arby (2003), ratio analysis can be used in analyzing the performance of banks in term of profitability. There are number of indicators that can be used in evaluating the performance of banking industry such as Return on Assets (ROA), Return on Equity (ROE) and Net Interest margin. Hence, in this paper the ROA and ROE will be used to analyze the performance of banking market in Malaysia. The ROA and ROE are expressed as follows:

$$ROA\ (ROE) = \frac{NET\ INCOME}{TOTAL\ ASSET\ (TOTAL\ EQUITY)} \quad (3)$$

ROA gives an idea on how efficient management using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets and it is displayed as a percentage. Meanwhile, ROE measures a corporation's profitability by revealing how much profit a company generates with the money that shareholders have invested. The ROE also is expressed as a percentage.

Data

The secondary data for this study is obtained from the published annual reports of each banking firms in 2009 and from the websites of the Associations of Banks in Malaysia and Central Bank of Malaysia (Bank Negara Malaysia).

FINDINGS

The findings of the study using the methodology discussed above will be the focus of discussion in this section. Therefore, the discussion on the findings will emphasize on the structure, conduct and performance of the banking industry in Malaysia as follows.

Market structure

(a) Market size and distribution

The total number of conventional and Islamic banks (including the banks that operating Islamic windows) in Malaysia for 2011 were about 24 banks and 17 banks, respectively. The players of banking industry in Malaysia are given in Table 1 and 2.

[Insert Table 1 and Table 1]

Beginning 2011, the Islamic banking system in Malaysia has been represented by two Islamic banks and 15 domestic commercial banks, out of which 6 banks are foreign owned, as shown in Table 1. Meanwhile, the conventional banks in Malaysia has been made up of about 24 banks consisting of 15 foreign banks and 9 domestic banks, as shown in Table 2. Both banking system in Malaysia have different ownership structure. The ownership of conventional banking system is dominated by foreign banks while the ownership of Islamic banking system is dominated by local banks. The foreign banks dominated about 59% of conventional banking system whereas 41% is owned by the local banks. While 65% of the Islamic banking system is dominated by local banks, and foreign bank ownership is 35%.

Meanwhile, the distribution of the conventional banking system by regional markets is shown in Table 3. The distribution of bank branches for 2009 and 2010 does not show much change. The distributions of bank branches are mostly concentrated in the developed states, especially in Selangor, Wilayah Persekutuan Kuala Lumpur and Johor. These three states account for 50.2 percent of the total bank branches in Malaysia. The concentration of bank branches in the three states may be due to the high concentration of economic activities in those states.

[Insert Table 3]

(b) Market competitiveness

The analysis of market competitiveness will be based on the measurement of CR and HHI for the total assets, total equity, total loans and total deposits of dual banking system as discussed in previous

section (methodology). Table 5 shows the CR_2 and CR_4 for conventional and Islamic retail banking industry in Malaysia.

[Insert Table 5]

Table 5 shows that more than 50 percent equity, asset, loan and advances and deposits are concentrated in the 4 largest banks. According to Bisant (2008), if the CR for 4 largest firms (CR4) is below 40 percent, then the industry is considered as competitive. Therefore, the conventional banking market in Malaysia can be considered as moderately concentrated market due to CR for four indicators which exceed 40 percent. Meanwhile, Muslim et. al. (2008) also has provided a benchmark to define the market structure of an industry. According to them, the market is considered as monopoly if the CR_4 is greater than 70 percent, and it is an oligopoly if the CR_4 is greater than 40 percent but lesser than 70 percent. Based on this benchmark, the banking industry in Malaysia can be considered as an oligopoly market.

Furthermore, the structure of the market can also be viewed in terms of ownership of the bank, whether it is owned by the local or foreign banks. In general, the 4 largest local banks are Malayan Banking Berhad, CIMB Bank Berhad, Public Bank Berhad and Hong Leong Bank Berhad. Meanwhile, the 4 largest foreign banks are HSBC Bank Malaysia Berhad, Citibank, OCBC Bank (Malaysia) Berhad and United Overseas Bank (Malaysia) Berhad. The ownership structure of the conventional banking market shows that the four largest local bank and foreign banks dominated the conventional banking market base on the share of equity, asset, loan and advances and deposits which are greater than 70 percent (see Muslim (2008)).

The CR for Islamic banking system in Table 5 shows that the Islamic banking market is also moderately concentrated based on the CR for four indicators which exceed 40 percent as suggested by Bisant (2008). The two largest local banks in Islamic banking market are Maybank Islamic and Bank Islam Malaysia Berhad, while the two largest foreign banks in Islamic banking market are Kuwait Finance (Malaysia) Berhad and Al Rajhi Banking and Investment Corporation (Malaysia) Berhad. The CR in Table 5 clearly shows that the concentration of conventional banking system is higher than the concentration ratio of Islamic banking system. Thus, it shows that the retail banking market in Malaysia is still dominated by the conventional banking system. Both foreign and local banks dominate the conventional banking system, whereas the Islamic banking system is dominated by the foreign banks.

The HHI for both conventional and Islamic banking system are shown in Table 5. According to the benchmark by anti-trust practices in the US, the results indicate that majority of the four indicators in banking market are moderately concentrated except the HHI for total equity for local banks in conventional banking system which is highly concentrated. In fact all indicators for foreign Islamic banks are highly concentrated except for total deposits. Overall, the results of HHI for the dual banking system show that the banking market in Malaysia is moderately concentrated among the few numbers of banking firms. In conclusion the measurement of CR and HHI show that the conventional banking system is dominated by both local and foreign banks but the Islamic banking system is dominated by the foreign bank.

(c) Market delineation

The analysis in this section will concentrate on three aspects: the geographical locations of the bank branches, the bank branch density (Neuberger, 2008) and product differentiation. The geographical aspect of bank branches refers to the bank branches that are located at every state in Malaysia. The number of branches of each bank in every state shows the accesses ability of the costumers to the bank which depends on the transportation and information costs. The costs of transportation and information will be lower if more branches are located in every state in Malaysia. Therefore, the outreach of banking services by the customers can be analyze by looking at the total number of each bank branches, as shown in Table 6.

[Insert Table 6]

The distributions of bank branches in Table 6 show that four banks namely, Affin Bank Berhad, CIMB Bank Berhad, Malayan Banking Bank Berhad and RHB Bank Berhad open their branches in every state in Malaysia. The total number of branches provided by local banks is about 1,844 bank branches, that accounted by 91.7 percent. The total number of branches that has been provided by foreign bank is only about 166 branches, even though the total numbers of foreign banks

exceed the local banks. The huge number of local bank branches shows that the access ability of the customers to the local bank is higher compare to foreign bank.

[Insert Table 7]

The branch density is calculated by dividing total number of branches in each state to the total population in each state for 2009. The branch density in the Malaysian conventional banking markets is given in Table 7. The branch density for nine states has exceeded the average branch density except for seven states namely, Kedah, Kelantan, Terengganu, Pahang, Wilayah Persekutuan Labuan, Sabah and Sarawak. The result shows, that majority of the states in Malaysia have enough branches to provide their services for the total population in each particular states.

Generally, there is no clear product differentiation in the case of banking products that have been offered by the banking firms. But, the product differentiation can be seen in terms of the differentiation in the quality of services offered, such as Auto Teller Machines (ATMs), Cheque Deposits Machines, internet banking, mobile banking, and Tele-banking.. It is assumed that the banking firms with high quality services are more likely to attract the customers. The quality of banking services that served by each conventional banking firm in Malaysia is shown in Table 8. The information in Table 8 clearly shows the bank's efforts in giving the good quality services to attract the customers. Therefore, banks compete with each other to serve high quality services in order to gain market shares and continually attract as many customers as they can via providing good quality services. This shows that the banking firms in Malaysia always try to upgrade their service quality in order to provide the best banking services to the customer.

(d) Barriers to entry

The analysis of market competitiveness shows that the banking market in Malaysia is moderately concentrated. This is due to the actual practices in banking market by the Central Bank of Malaysia under the Islamic Banking Act of 1983 and Banking and Financial Institution Act 1989 (BAFIA). According to these Acts, the operator of banking firms must required the licensed from the authorities before entering the banking market. Therefore, this rule limits the number of operators in the Malaysian banking market.

Market Conduct

The market conducts of banking firms in Malaysia can be analyzed through the expenditures on advertising and promotion of banking firms in the Malaysian banking market as shown in Table 9. Generally, banking firms allocate some of their profits for marketing expenses especially on advertising and promotion. The banks involve in advertising and promotion to give information to the customers about their products and services. Marketing expenses of local banks is more than the foreign bank. The growth of marketing expenses for local bank in both banking system do not show much difference. However, the annual growth of foreign conventional bank shows a reduction by 11.4 percent compare to the expenses in Islamic banking system which increased by 98.2 percent.

[Insert Table 9]

In industrial study, advertising and promotion activities are considered as the action taken by the firms in order to gain high market shares via the information channel. Banks use many channels to do the advertising and promotion activities especially via television, radio, internet and printed media such as newspapers and pamphlet. . Besides, the supply of quality services also can be considered as the conduct of the firms in the market. The supply of high quality services give an opportunity to the banks to attract customers, as has been discussed in the market delineation aspect.

Performance

(a) bank profitability – ratio analysis

Banking firm's performance will be evaluated based on the calculation of ROA and ROE for both conventional and Islamic banking market, as shown in Table 11. Overall, banking firms in conventional banking system are showing better asset quality and equity compare to the firms that operate in Islamic banking market. Hence, the performance of conventional banking system is better

than the performance of Islamic banking system. This result also shows that, the banking firms in the conventional banking system are more efficient in using their assets to generate profits. Furthermore, the investment made by the shareholders generates profit efficiently for the banks in conventional banking market as compare to the banks in Islamic banking market. In term of ownership, the foreign banks have better quality assets and equity compare to the local banks that operate in the conventional banking market. Meanwhile, in the Islamic banking system the local banks show better performance than the foreign banks.

[Insert Table 11]

(b) welfare perspective

The performance of the banking industry also can be evaluated by analyzing the welfare that the society gains by the firms operation in the industry. Nowadays, the banking firms always compete with each other so as to offer better services to the customers. The firms always try to upgrade their services to fulfill the customers need. This serve as a signal that shows the banks in the banking market are performing well compare to that of the previous periods .

The banking industry is one of the heavily taxed industries in Malaysia. For instance, the banking firms in both conventional and Islamic banking market have to pay tax to the government based on the profit they earn. In addition, the Islamic banks also have to pay zakah on the profit that they earned. Government will use the tax collected on development project such as upgrading infrastructure so as to provide a better living environment to the society. Thus, it helps to increase the society's welfare. The zakah payment also will be used by the religious board such as Majlis Agama Islam to help the poor and needy as well as for the development projects that concentrates on the economic and social development and welfare of the muslims as a whole. Thus, zakah and tax payment can be used to equalize the distribution of income in the society. This is parallel to with the definition given by Scherer and Ross (1990). They have postulated that good performance embodies several fundamental goals of the society, including efficiency, full employment of resources and equitable distribution of income (Bisant, 2008).

CONCLUSION

This paper attempts to discuss the theoretical concepts of SCP paradigm in Malaysian retail banking market. The study shows that there is a slight different in the structure of Islamic and conventional banking system especially in terms of ownership and concentration. Meanwhile, the conducts of the banking firms in both systems are considered the same. While, the performance measurement using the ratio analysis shows that the conventional banking system is more efficient in utilizing their assets and equity to generate profit compare to the banks in Islamic banking system. Where foreign banking firms are concerned it has played a significant role in both banking system compare to the local banking firms. The role of the foreign banking firms has been strengthened with the operational flexibilities given by the government. Under such flexibilities, foreign financial institutions are able to improve their reaching out for financial products and services by increasing the number of branches. Besides, the reason for liberalization of the financial market is to ensure maximum benefit to the country to help in to achieve the status of high income country. This is due to the role of banking firm as a fund provider to the investors which then will enhance the investment environment in the economy and continually stimulates economic growth.

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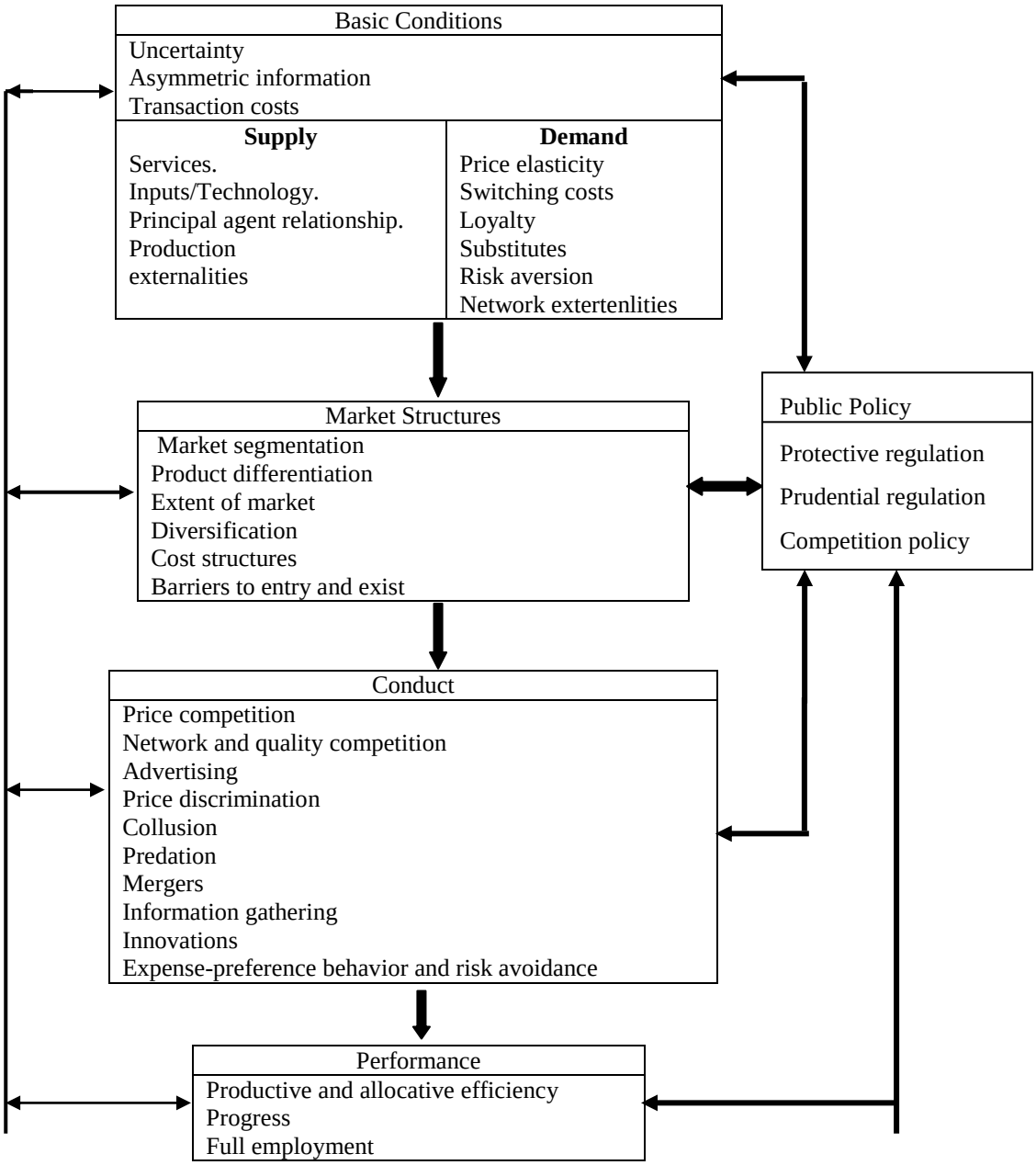

Source: Neuberger (1998) and Waldman et. al (1998).

FIGURE 1: SCP Framework for Banking Markets

TABLE 1: Islamic Banks in Malaysia

No.	Name of Bank	Ownership
1	Affin Islamic Bank Berhad	L
2	Al Rajhi Banking and Investment Corporation (Malaysia) Berhad	F
3	Alliance Islamic Bank Berhad	L
4	AmIslamic Bank berhad	L
5	Asian Finance Bank Berhad	F
6	Bank Islam Malaysia Berhad	L
7	Bank Muamalat Malaysia Berhad	L
8	CIMB Islamic Bank Berhad	L
9	EONCAP Islamic Bank Berhad	L
10	Hong Leong Islamic Bank Berhad	L
11	HSBC Amanah Malaysia Berhad	F
12	Kuwait Finance House (Malaysia) Berhad	F
13	Maybank Islamic Berhad	L
14	OCBC Al-Amin Bank Berhad	F
15	Public Islamic Bank Berhad	L
16	RHB Islamic Bank Berhad	L
17	Standard Charted Saadiq Berhad	F

Notes: L for local owned bank and F for foreign owned bank.
Sources: Bank Negara Malaysia. www.bnm.gov.my.

TABLE 2: Conventional Banks in Malaysia

No.	Name of Bank	Ownership
1	Affin Bank Berhad	L
2	Alliance Bank Malaysia Berhad	L
3	AmBank (M) Berhad	L
4	Bangkok Bank Berhad	F
5	Bank of America Malaysia Berhad	F
6	Bank of China (Malaysia) Berhad	F
7	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad	F
8	CIMB Bank Berhad	L
9	Citibank Berhad	F
10	Deutsche Bank (Malaysia) Berhad	F
11	EON Bank Berhad	L
12	Hong Leong Bank Berhad	L
13	Industrial and commercial Bank of China (Malaysia) Berhad	F
14	HSBC Bank Malaysia Berhad	F
15	J.P. Morgan Chase Bank Berhad	F
16	Malayan Banking Berhad	L
17	OCBC Bank (Malaysia) Berhad	F
18	Public Bank Berhad	L
19	RHB Bank Berhad	L
20	Standard Chartered Bank Malaysia Berhad	F
21	Sumitomo Mitsui Banking Corporation Malaysia Berhad	F
22	The Bank of Nova Scotia Berhad	F
23	The Royal Bank of Scotland Berhad	F
24	United Overseas Bank (Malaysia) Berhad	F

Notes: L for local owned bank and F for foreign owned bank.
Sources: Bank Negara Malaysia. www.bnm.gov.my.

TABLE 3: The Number of Conventional Bank Branches by States in Malaysia, 2009 and 2010

States	Number of Bank Branches		Percentage Distribution by State (%)	
	2009	2010	2009	2010
Perlis	12	12	0.6	0.6
Kedah	77	78	3.8	3.8
Penang	177	175	8.8	8.6
Kelantan	38	38	1.9	1.9
Terengganu	40	40	2.0	2.0
Pahang	91	91	4.5	4.5
Perak	171	171	8.5	8.4
Selangor	428	442	21.3	21.8
WP Kuala Lumpur	325	323	16.2	15.9
WP Putrajaya	5	6	0.2	0.3
WP Labuan	9	9	0.4	0.4
Negeri Sembilan	70	70	3.5	3.5
Melaka	55	55	2.7	2.7
Johor	251	253	12.5	12.5
Sabah	108	110	5.4	5.4
Sarawak	153	153	7.6	7.6
Total	**2010**	**2026**	**100**	**100**

Source: Adaptation by the author from www.abm.org.my

TABLE 4: Concentration Ratio and HHI for Conventional and Islamic Banking System, 2009

Indicator	Conventional			Islamic		
	Concentration Ratio (%)		HHI	Concentration Ratio (%)		HHI
	CR_2	CR_4		CR_2	CR_4	
Total Equity						
All Banks	41	59	1204	25	44	794
Local Banks	55	78	1947	29	55	1099
Foreign Banks	35	66	1305	63	77	2834
Total Assets						
All Banks	35	57	1067	28	47	905
Local Banks	45	73	1638	34	52	1224
Foreign Banks	39	70	1552	48	75	1879
Total Loan & Advances	38	59	1148	34	56	1034
All Banks	47	73	1662	38	66	1375
Local Banks	43	78	1794	57	84	2247
Foreign Banks						
Total Deposits						
All Banks	35	58	1043	32	53	973
Local Banks	44	72	1582	37	60	1233
Foreign Banks	42	75	1698	45	78	1755

Source: Calculated by the author.

TABLE 5: Bank Branches by States in Malaysia, 2009NO

	BANK	PER	KED	PNG	KTN	TGN	PHG	PRK	SGR	KL	PJ	LAB	NS	MLK	JHR	SBH	SWK	TOT
1	Affin Bank Berhad	1	3	9	2	3	4	6	20	16	1	1	3	2	11	4	4	90
2	Alliance bank Malaysia Berhad		4	7		2	1	2	23	19		1	1	2	16	17	4	99
3	AmBank Malaysia Berhad	2	5	17	2	5	9	19	37	25		1	7	6	23	11	18	187
4	Bangkok Bank Berhad									1								1
5	Bank of Amerika Malaysia Berhad									1								1
6	Bank of ChIna (Malaysia) Berhad									1								1
7	Bank of Tokyo Mitsubushi UFJ (M'sia) Berhad									1								1
8	CIMB Bank Berhad	2	14	29	11	10	19	25	68	56	1	1	14	10	32	13	16	321
9	Citibank Berhad			2					3	1					1			7
10	Deutsche Bank (Malaysia) Berhad									1								1
11	EON Bank Berhad	1	6	13	2	2	3	10	29	22	1		5	5	21	6	13	139
12	Hong Laeong Bank Berhad	1	6	16	1	2	7	14	48	33		1	5	3	22	7	18	184
13	HSBC Bank Malaysia Berhad		2	3	1	1	5	3	6	5		1	1	1	4	3	4	40
14	J.P. Morgan Chase Bank Berhad									1								1
15	Malayan Banking Berhad	3	14	36	9	7	19	37	82	62	1	1	13	11	51	16	23	387
16	OCBC Bank (Malaysia) Berhad		1	3	1		1	3	5	4			1	1	6	1	2	29
17	Public Bank Berhad	1	11	21	5	3	13	27	50	37		1	9	7	28	14	21	248
18	RHB Bank Berhad	1	8	11	3	4	6	20	41	27	1	1	8	4	24	8	22	189
19	Standard Chartered Bank Malaysia Berhad		1	3			1	3	7	4			2	1	3	3	4	32
20	The Bank of Nova Scotia Berhad			1					2	1					1			5
21	The Royal Bank of Scotland Berhad			1				1		1					1			4
22	United Overseas Bank (Malaysia) Berhad		2	4	1	1	3	1	7	6			1	2	6	3	4	41
	TOTAL BY STATE	12	77	177	38	40	91	171	428	325	5	9	70	55	251	108	153	2010

Source: The Association of Bank in Malaysia. www.abm.org.my

Notes: PER = Perlis, KED = Kedah, KTN = Kelantan, TGN = Terengganu, PHG = Pahang, PRK = Perak, KL = WP Kuala Lumpur, LAB = WP Labuan, NS = Negeri Sembila, JHR = Johor, SBH = Sabah, SWK = Sarawak, TOT = Total

Table 6: Branch Density in Malaysia, 2009

State	Branch Density
Perlis	0.05
Kedah	0.04
Penang	0.11
Kelantan	0.02
Terengganu	0.04
Pahang	0.06
Perak	0.07
Selangor	0.09
WP Kuala Lumpur	0.19
WP Labuan	0.10
Negeri Sembilan	0.07
Melaka	0.07
Johor	0.08
Sabah	0.03
Sarawak	0.06
Mean of Branch Density=0.07	

Source: Calculated by the author.

Table 7: Type of Services Provided by Banking Firms in Malaysia, 2009

NO	BANKS	SSTs		ADC			
		ATMs	Other*	IB	MB	TB	DB
1	Affin Bank Berhad	145	207	Y	N	N	Y
2	Alliance bank Malaysia Berhad	175	193	Y	N	Y	N
3	AmBank Malaysia Berhad	737	333	Y	Y	Y	N
4	Bangkok Bank Berhad	0	0	N	N	N	N
5	Bank of Amerika Malaysia Berhad	0	0	Y	N	N	N
6	Bank of ChIna (Malaysia) Berhad	0	1	N	N	N	N
7	Bank of Tokyo Mitsubushi UFJ (M'sia) Berhad	0	0	N	N	Y	Y
8	CIMB Bank Berhad	1,994	1,560	Y	Y	Y	N
9	Citibank Berhad	33	63	Y	Y	Y	N
10	Deutsche Bank (Malaysia) Berhad	0	0	Y	N	N	N
11	EON Bank Berhad	229	276	Y	N	Y	Y
12	Hong Leong Bank Berhad	314	370	Y	Y	Y	N
13	HSBC Bank Malaysia Berhad	123	196	Y	N	Y	N
14	J.P. Morgan Chase Bank Berhad	0	0	N	N	N	N
15	Malayan Banking Berhad	2,828	1,769	Y	Y	Y	Y
16	OCBC Bank (Malaysia) Berhad	66	150	Y	Y	Y	N
17	Public Bank Berhad	459	849	Y	Y	Y	Y
18	RHB Bank Berhad	649	466	Y	N	Y	Y
19	Standard Chartered Bank Malaysia Berhad	57	127	Y	Y	Y	Y
20	The Bank of Nova Scotia Berhad	0	0	N	N	N	N
21	The Royal Bank of Scotland Berhad	4	0	Y	N	N	Y
22	United Overseas Bank (Malaysia) Berhad	88	165	Y	N	Y	N
	TOTAL	7,901	6,725				

Source: The Association of Banks in Malaysia. www.abm.org.my

Notes: SSts = Self Service Terminals

ADCs = Alternative Delivery Channels : IB=Internet Banking, MB= Mobile Banking

TB = Telebanking, and DB=Desktop/PC Banking; Y = Yes and N= No

* Other SSts Include Cash Deposits machines, Cheque Deposits Machines, Cheque scan Machines, Passbook Update Machines, Statement Printers, Internet Kiosks, Self Service Coin Machines.

TABLE 8: Marketing Expenses by Bank, 2008 and 2009 (Percentage)

Bank	**Conventional**			**Islamic**		
	2008	**2009**	**Growth**	**2008**	**2009**	**Growth**
Local Bank	70.3	75	12.1	81	71	13.6
Foreign Bank	29.7	25	-11.4	19	29	98.2
Total	100	100		100	100	

Source: Adaptation from Annual report of Commercial and Islamic Banks in Malaysia, 2009.

TABLE 9: Performance of Banking Industry in Malaysia, 2008

Banking Industry	**ROA**	**ROE**
Conventional		
All Banks	0.81	10.56
Local banks	0.71	9.48
Foreign Banks	1.15	14.02
Islamic		
All Banks	0.75	10.31
Local banks	0.83	13.60
Foreign Banks	0.38	2.78

Source: Calculated by the author