

# [Banking industry in malaysia term paper example](https://assignbuster.com/banking-industry-in-malaysia-term-paper-example/)

[Business](https://assignbuster.com/essay-subjects/business/), [Industries](https://assignbuster.com/essay-subjects/business/industries/)

## Banking industry in Malaysia

The Malaysian banking industry can be traced back to the early 1900s during a period of rapid economic development mainly due to the increasing profits accrued from the rubber plantations and the tin industry. This resulted to the opening of branches of foreign banks in the country and the establishment of the first domestic bank in the country, Kwong Yik Banking Corporation during 1913, which is presently the Malaysian Banking Berhad (Alexander, 2007). This set the pace for the growth of the industry and its subsequent expansion to include the setting up of Bank Negara Malaysia, which is the country’s central bank that had the responsibility of overseeing the banking operations in the country (Ang, 2008). The banking industry in Malaysia presently constitutes of diverse financial institutions including commercial banks, merchant banks, representatives of foreign banks and the Islamic banks. The successful restructuring and the consolidation of the Malaysian banking industry during 2003 helped in the strengthening of the domestic financial infrastructure of the country. In addition, the transformation of the banking sector resulted to the development of conventional banking services and products, which were enhanced by the integration of technology in the banking industry (Angelo, 2010).
The transformation of the banking industry in Malaysia also resulted to the introduction of new financial services and products such as investment banking, trade and share financing and Islamic banking. This presents diverse investment opportunities for investing in the Malaysian banking industry. The outcome of this transformations and consolidation of the Malaysian banking sector is a stronger foundation that has facilitated increased performance and resilience (Barlow, 2003). The continuing de-regularization and increased liberalization have played an integral role in increasing the flexibility of the financial institutions while at the same time providing opportunities for new investments and increasing the competitiveness of the banking sector (Brown, 2006). The structural changes have also played an integral role in reshaping the industry through avenues such as the opening of capital market intermediaries, the increasing availability of international industry leaders in Islamic finance, investment banks and the development of the bonds market. This has resulted to the diversification of the financial system (Enrica & Poonam, 2004).

## Literature review

Banking industry in Malaysia
The recent developments in the banking sector in Malaysia have resulted to positive outcomes for the financial system. Presently, the financial sector has witnessed a revolution from the traditional role of being an enabler of economic growth to turn out to be a vital source for its own growth and expansion. The banking sector currently offers employment for at least 123, 000 citizens of the country (Enrica & Poonam, 2004). Despite the global financial challenges within the first decade of the 21st century, the Malaysian banking sector has been consistent on a solid financial ground having a risk-weighted capital ratio of at least 13 percent and constant profitability for eight subsequent years. The domestic banking enterprises are also embarking on strengthening their domestic performance and expand their scope of operations beyond the country. At present, there are six Malaysian banks that have expanded their operations to 10 states within the region (IMF, 2001).

Some of the factors that shape the Malaysian banking sector include the dynamic configuration of the global economy and the worldwide financial markets, regional integration of economies and financial markets, the increasing importance of Islamic finance in the global financial system, an increase in the domestic demand of the Asian economies and the development of the regulatory frameworks. These factors have the potential of shaping the future status of the banking industry in the country (International Monetary Fund, 2004).

Commercial banks in the country represent the largest segment of the financial institutions in Malaysia, with a total asset of about RM 1, 1192. 84 million. Approximately 55. 61 percent of the total loans in the banking system are derived from the household sector, which includes mortgages, personal loans and hire purchase loans for the passenger cards. The banking system in the country is stable and has adequate liquidity that is needed to meet the demands posed by the deposits and the withdrawals (IMF, 2001). During the 3rd quarter of 2010, there was a growth in the deposits by 8. 9 percent, which was largely obtained from financial institutions, business enterprises and individual deposits. The ratio of the loan-to-deposit was 81. 3 percent while the financing-to-deposit ratio was 87. 8 percent. In order to achieve higher levels of stability in the financial system, the institutions in the banking sector operate under the rules and requirements outlined by the Bank Negara Malaysia. This implies that all banking institutions in the sector must meet the requirements of Risk-Weighted Capital ratio of 8 percent established by the Central Bank. As of the 3rd quarter of 2010, the risk-weighted capital ratio was approximately 14. 75 percent, which is relatively higher compared to the required ration. The growth of the banking sector is also evident in the Islamic finance segment, which is fastest growing financial services sector in the global banking sector with a yearly growth rate of approximately 20 percent over the last five years (Oxford Business Group, 2010). Presently, Malaysia has a total of 17 Islamic banks and Islamic units in global representative offices such as Standard Chartered PLC, HSBC Holdings and OCBC. The leading players in the Malaysian banking sector include Malayan banking Berhad, Public Bank Berhad, RHB Capital Berhad and Hong Leong Bank Berhad (Oxford Business Group, 2010).

## The Next Growth Opportunity for Banking in Malaysia

The future of Malaysian banking sector significantly depends on the emerging trends associated with international and regional integration. This brings new growth opportunities for banking in Malaysia. In the light of these, the first next growth opportunity for banking in Malaysia is the increasing importance of Islamic finance, which poses as a financial intermediation that is competitive and viable (Jeong-Dong & Almas, 2008). The liberalization of the Malaysian banking sector has also played an integral role in the strategic positioning of the Malaysian banking sector in the region and globally especially in the growth of Islamic finance. Islamic banks are allowed to expand their scope of financial activities to include commercial banking, investment banking and wealth management, retail consumer banking and the international currency business. It is therefore important for the banking institutions in Malaysia to take into account their competitive positioning in Islamic finance and deploy effective strategies so as to participate in Islamic finance that is growing (Vernados, 2006).

The next growth opportunity for banking in Malaysia is the increasing importance of domestic demand, which is anticipated to experience a positive growth in future. This is supported by high income levels, a stable labor market and a demographic trend that mostly comprises of the young population (USA International Business Publications, 2007). In addition, domestic demand in the Malaysian banking sector is imposed by a shift in the private consumption towards goods that are income sensitive and lifestyle services; this presents a potential opportunity through which the banking institutions in the country should position themselves to provide diverse innovative financial products and services that are tailored to meet the demands posed by the ever increasing sophisticated customers (IMF, 2001). The changes in the Malaysian demographic profile will impose an indirect effect in relation to the domestic financial and banking landscape. A large population of Malaysia comprises of young individuals, this development is bound to impose significant implications in the human capital and the business-level strategies for banking institutions in the country especially with regard to the saving trends and the demand for diversified financial products (Hamim et al., 2006).
The next opportunity for growth of banking in Malaysia is the trend that is inclined towards the integration of economic and financial systems within the region. This has resulted to the development of the financial sector and continued liberalization of the capital accounts (Isik & Hassan, 2000). As a result, most of countries in the region are adopting strategies that extend beyond a restructuring of the financial system to establish financial systems that are diversified and vibrant. This can result to the establishment of a financial system that has diverse financial service provides and various asset classes, which may include private equity, venture capital, hedge funds and Islamic finance (Kabir & Mervyn, 2007).
Financial ratios have been used in comparing the financial performances of various companies. This is because the financial ratios deploy a combination of financial and operating data in order for the investors to assess the liability, viability and its future performance. The significant limitation is that they usually do not reflect the actual nature of the company and that they are based only past data since they cannot take into consideration the future events. A research by Dejan et al (2009) used the financial ratios to compare the performance of 15 banks in Croatia. The research made use of the total value assets as a comparison base. The significant problem highlighted in the research was the complexity when using more than one financial ratio over a number of years for comparing the performances, which poses the need to develop a model. Dejan et al (2009) further notes that the comparisons of the financial ratios for the banks can results valuable conclusions regarding their financial stability and situations. This is due to the fact that the financial ratios are in the form of absolute values that can be easily interpreted to bring a true picture of the comparative financial performance of the banks. Comparing performance using a single financial ratio is easy although significant challenges are posed by when determining which bank is performing better within a specific sector or a given business segment. The complexity is increased in cases whereby a comparative analysis is conducted over a given time period. Such complex problems are solved through the use of models such as Analytic Hierarchy Process, which facilitates a comparative analysis of intangible criteria. The AHP model is usually created in accordance with the groups of financial ratios that are relevant to the banks. It is vital to take into consideration the fact that banks are specific economic subjects and that their classification of their financial ratios is significantly different from other economic sectors. Dejan et al (2009) effectively deployed the AHP model to compare the performance of 15 largest Croatian banks.

## Investment Considerations in Banking Industry in Malaysia

The diversity and liberalization of the Malaysian banking sector provides diverse opportunities for investment considerations. Potential investment considerations in Malaysia include the provision of Islamic financial services, consumer retail banking, wealth management, structured financial products, foreign exchange administration and private equity services (Teofilo, 2005).
Investment in the Islamic banking industry is based on the guiding principles of Islamic law referred to as the Shari’ah Law, which include the mutual risk and the sharing of rewards among the parties and the assurance of fairness for all the customers. Islamic banking is one of the broader aspects of Islamic finance that is experiencing high growth rates across the globe. Its establishment and stability in Malaysia makes it a potential investment opportunity in the banking industry in the country.
Investment in consumer retail banking is also a potential investment opportunity due to the fact nature of the demographic trends in the country that will serve to increase the demand for consumer retail banking services such as saving and wealth management. Retail banking also includes the issuance of personal loans and asset financing for individuals.
Corporate banking services are also a potential investment in the Malaysian banking sector due to the business growth. Corporate banking services range from corporate accounts and business asset financing and venture capitals. Regional integration of economies is likely to increase the volume of trade and expand the Malaysian financial market, which is likely to increase the demand for corporate financial services (Oxford Business Group, 2010).

## References

Alexander, P., 2007. Strategic Management in Islamic Finance. New York: DUV.
Ang, J., 2008. Financial Development and Economic Growth in Malaysia. New York: Taylor &
Francis.
Angelo, V., 2010. Current issues in Islamic banking and finance: resilience and stability in the
present system. Boston: World Scientific.
Barlow, C., 2003. Malaysian economics and politics in the new century. New York: Edward
Elgar Publishing.
Brown, R. A., 2006. The rise of the corporate economy in Southeast Asia. New York: Taylor &
Francis.
Dejan, Č., Tihomir, H. & Nina, B., 2009. Comparison of a Bank's Financial Ratios Using the
Analytic Hierarchy Process. [Online]
(http://www. ceciis. foi. hr/app/index. php/ceciis/2011/paper/viewFile/437/246) [Accessed
10 December 2011].
Enrica, D. & Poonam, G., 2004. Foreign banks in emerging market crises: evidence from
Malaysia, Issues 2004-2129. Washington: IMF.
Hamim, S. A., Abdullah, N. & Syed, N., 2006. Efficiency of Islamic Banking in Malaysia: A
Stochastic Frontier Approach. Journal of Economic Cooperation, 27(2), pp. 37-70.
IMF, 2001. Malaysia: from crisis to recovery. Washington: International Monetary Fund.
International Monetary Fund, 2004. Labuan, Malaysia: Assessment of the Supervision
and Regulation of the Financial Sector--Review of Financial Sector Regulation and
Supervision (EPub). Washington: International Monetary Fund.
Isik, I. & Hassan, M., 2000. Modellimng Monetary Stability under Dual Banking System: The
Case of Malaysia. International Journal of Islamic Financial Services, 2(1), pp. 78-92.
Jeong-Dong, L. & Almas, H., 2008. Productivity, efficiency, and economic growth in the Asia
Pacific region. New York: Springer.
Kabir, H. & Mervyn, L., 2007. Handbook of Islamic banking. New York: Edward Elgar
Publishing.
Kiatchai, S., 2008. South Asian bond markets: developing long-term finance for growth.
Washington: World Bank Publications.
Oxford Business Group, 2009. Malaysia 2009. Oxford: Oxford Business Group.
Oxford Business Group, 2010. The Report: Malaysia 2010. Oxford: Oxford Business Group.
Serhan, C. & Joshua, C., 2011. The Behavior of Conventional and Islamic Bank Deposit Returns
in Malaysia and Turkey. Washington: IMF.
Sook, C. W., Jomo, K. S. & Kok, F. C., 2005. Malaysian " bail outs"?: capital controls,
restructuring, and recovery. Kuala Lumpur: NUS Press.
Teofilo, D., 2005. The economies of Southeast Asia: Indonesia, Malaysia, Philippines,
Singapore, and Thailand. New York: Nova Publishers.
USA International Business Publications, 2007. Malaysia Banking & Financial Market
Handbook. New York: Int'l Business Publications.
Vernados, A., 2006. Islamic banking & finance in South-East Asia: its development & future.
Boston: World Scientific.